

Impact report gives smelter 'clean bill of health'

From Page 2

Marketing aluminium, the other major economic consideration in building a smelter, is evidently not within the ambit of the environmental impact report.

International aluminium demand projections assume a constant growth which the report puts down to the "the potential for the metal to be used as an energy-saving material in the packaging, transport, building and electrical industries".

The market does fluctuate though. World stock piles to the July 1980 year were up 7 per cent, discounting is a common practice and the Hong Kong and Rotterdam prices have been constant since March this year at \$1750 a tonne.

The International Primary Aluminium Institute forecasts

growth at 3 to 5 per cent with which the report concurs. IPA studies also show that increased production will slow down in industrial countries owing to rising energy and labour costs and, ironically, environmental controls. Developing countries — New Zealand among them — will start to become of greater interest.

The report acknowledges the change in siting of smelters. "After 1974 the decline in energy availability coupled with major increases in the price of oil significantly raised costs and producers recognised the need to seek alternative locations of energy sources."

Alusuisse, (Swiss Aluminium) which has a 25 per cent interest in the Aramoana project, recently caught a recalcitrant fish in its cheap electricity net. That company,

which built a smelter in Iceland a decade ago, has been accused of massive tax evasion by the Icelandic Government.

Answering the allegations at the company's AGM on April 22 chairman Emanuel Meyer said "Alusuisse must ask itself whether it bet on the wrong horse by investing in Iceland. The only reason we invested in Iceland was the low price of electricity," he said.

Meyer called the Icelandic Minister of Trade a communist. He is actually a social democrat and regarded the remark as a threat.

That smelter stars in full colour in the environmental impact report because, according to Joseph Piet, the consortium PR man "it is located in a deep-sea port access situation. Any other questions about Alusuisse need to be taken up with the Government which has had

assurances from Alusuisse," he said.

The Aramoana smelter which will be pointed "to ensure that the structures integrate with the surrounding background" is on a site selected in concurrence with the Government's desire to see regional development in the South Island and to reduce power transmission losses.

The site does fit admirably with the company's criteria: Port access, level land protected from flooding, close to a labour force, infrastructure and facilities, adequate supply of water and plenty of wind.

Fifteen sites were considered but most failed to meet several criteria. Aramoana, with its favourable water, land, labour and wind conditions was a likely contender from the outset.

During the site selection there appeared to be "minimal

adverse physical, biological or environmental consequences". Murray North and Partners, Bioresources Ltd and various Government departments contributed to the "multi-disciplined approach necessary to adequately assess the physical and biological impacts."

The report concludes "the plant's scale will dominate the harbour landscape, but there will be limited biological impacts from aerial emissions and discharge of liquid effluents."

Aluminium smelting does produce emissions containing fluorides, dust, sulphur dioxide and "various other substances". But the results of 100 years of smelting technology have greatly reduced emissions which are further reduced in this plant by the use of pneumatic feeding and computer control.

Floods over the computer-controlled pots collect nearly all the evolution under normal operating circumstances. The "anode effect", a chemical imbalance which increases fluoride evolution can be detected by computer and corrected, eliminating the necessity to open the pot hood.

Dry scrubbers and fabric filters, through which the gases are sucked, catches most of the fluorides which are collected and returned, ultimately, to the pots.

Sulphur dioxide discharges will be proportioned to meet the Health Department memorandum on chimney heights, which is used for general industry in the country. Furnace gases will be passed through a water spray tower to cool and condense most of the condensate and then cleaned of condensate and dust.

What does get out will be blown away. A study conducted by the geography

department of the University of Otago reports that "dispersion of emissions is likely to be satisfactory because the site enjoys persistent strong winds which blow towards the sea at per cent of the time."

Solid wastes — 145 tonnes a day — from pot and anode operation will, for the most part, be recycled. Non-recyclable wastes will be dumped in controlled areas for leaching or use in the landfill. If unacceptable impacts are identified "engineering remedies are available to overcome these" says the report.

Sewage will be collected, process waste streams will be treated and discharged to the land fill or harbour; fluoride carried back to earth by rail will be intercepted in retentive basins for storm water run-off. Once through a primary cooling system effluents will be discharged to the harbour.

The proposed reclamation of 30 hectares is "unlikely to have any detectable effect on fish and invertebrate of adjacent areas" says the report which claims there will be no intrusion to the salt-marsh zone. The long construction period will "allow birdlife a long period of adjustment."

"There are no important areas of native vegetation or other habitats that would be destroyed or adversely affected by proposed development of the site area. The displacement of bird population that uses the area at present would have a major adverse effect."

The report, weighing 1.5kg, is detailed and thorough in its assessment of environmental impacts — from fluoride through to noise to which colour to paint the walls — but is not statutorily required to address questions that the general public have been expressing a need to discuss.

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NATIONAL BUSINESS REVIEW

Discounts continue openly

by Warren Berryman

WHILE Transport Minister Colin McLachlan says he has received no information on illegal fare discounting (NBR, last week), Air New Zealand tickets were openly being sold in Auckland for 30 per cent less than the Government approved fare.

That discount was available to anyone with a \$4.50 membership to Club International Society Inc, whose president, Richard Riddiford, is a nephew of the former Minister of Justice, Dan Riddiford.

Well documented evidence of this discounting has been sent to the Ministry of Transport, together with a request that the Government prosecute the state airline for breaking the



AS early as 1976, Transport Minister Colin McLachlan wrote a letter to a travel agent, saying:

"The whole question of illegal discounting and rebating has been a matter of concern to Government for some time. In order to eliminate these and other marketing abuses, which I am aware do exist, I intend to introduce legislation which will enable Government to take effective action against offenders selling tickets in New Zealand."

No such effective action has been taken.

Less than three months ago, the Airline Steering Committee circulated a letter to airlines outlining no less than 28 separate complaints about non-approved airfares being advertised. Many concerned Air New Zealand tickets.

Since then, TAANZ has made several complaints to the Ministry about illegal fare discounting.

rules that protect it from competition.

International air tariff regulations, policed by the Ministry of Transport, in effect prohibit airlines from offering con-

sumers air fares cheaper than those officially filed by Air New Zealand.

A rival airline spent more than \$2000 buying two discounted Air New Zealand tickets as evidence for the Ministry of Transport, to prompt the Government to investigate.

An accountant from this airline went to Budget Travel Ltd, one of several Auckland agencies offering discounted Air New Zealand tickets, and

bought two tickets written out on Air New Zealand forms issued by Putaruru United Travel.

Both tickets were marked "non-endorsable", so the traveller must travel by Air New Zealand.

One ticket, an Auckland-Los Angeles-Auckland return ticket, showed a fare of \$1490 plus \$25 tax. The other, an Auckland-Los Angeles trip, showed a \$995 fare plus \$25 tax.

The total amount shown on the two tickets was the legal fare of \$3035.

But the accountant paid only \$2123.50 for both and received a receipt from Budget Travel for that amount.

To obtain the \$911.50 discount, the accountant bought a \$4.50 membership in Club International on the spot.

He was told he could not fly by any other airline and obtain the same discount.

These tickets, the receipt from Budget Travel, together with a sworn affidavit from the accountant, have been sent to the Ministry of Transport.

The ministry's senior advisory officer in charge of international airfare policy, Kathy Lythe, said she could not comment on the legality of such a transaction.

But she said: "You have reference to the International Air Tariff Regulations, which state quite clearly that no air travel organiser shall offer, arrange, or in any way let out international air transportation

Continued on Page 16

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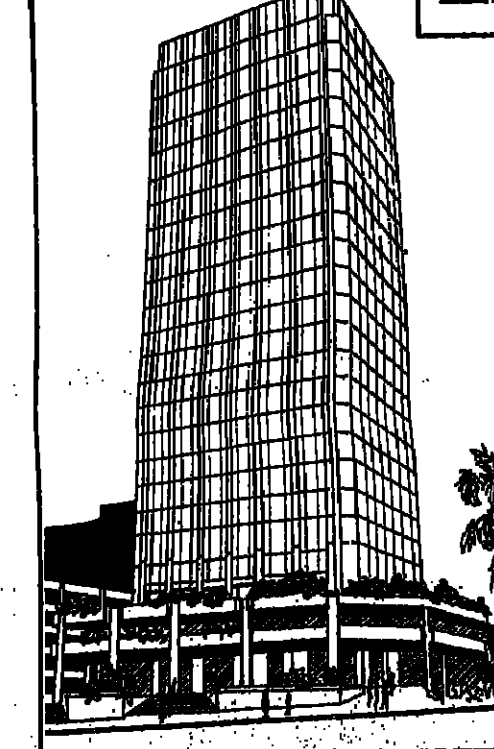
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The week

Those two job reports: not to be confused

by Ann Taylor

UNEMPLOYMENT is about people, not statistics. The *Jobs and People* booklet released by the Government two weeks ago makes that statement just once.

The National Research Advisory Council group, in contrast, took that statement as a term of reference and couched its report in language appropriate to a human issue.

The furor following the release of the two documents has distracted attention from the principal issues: how many people are unemployed and what is the Government's commitment (if it has acknowledged the extent of the problem) to creating jobs.

The NRAC draft was prepared by a working party of seven people in good faith as an input to the employment debate.

The first draft of *Jobs and People* was prepared by Link Consultants in the three months from November to January, as part of a three-pronged contract from the Labour Department.

The draft was modified in the next five months, gathering further input from Government departments and going through numerous revisions.

Link was not producing a document of its own, contrary to what many people believe.

The Link contract included the compiling of a list of people and organisations involved in employment and the preparation of a research document for Labour Minister Jim Bolger.

The brief for the booklet was to present Government policy. It did not, therefore, include arguments on reducing the working week or redistributing income.

The research document apparently describes the various orientations of the different

Government departments which are involved in the problem.

The booklet, which Bolger in his foreword says aims "to make sure everyone is fully informed" on the "Government's approach" to unemployment, ran to 20,000 copies.

Its 32 glossy pages are punctuated ironically, by pictures of people working.

The only identifiable cost is Link's \$37,000 contract price; the cost of printing, distributing and staff time have not been made public.

The booklet has been variously slammed as "facile and expensive", a "snow job" and "unfair on employers".

It tells us we have an unemployment problem, that the Government is concerned, and that there is employment and training assistance available — which employers are not making full use of.

It does not spell out a "policy" or acknowledge that the creation of employment opportunities have been the primary objective of Government's planning of "think big", forestry, manufacturing and other growth strategies.

The NRAC report was delayed by Christmas holidays, the absences of people overseas, and the grinding machinery of the consultative process.

The working party of seven which prepared the report — economists, university and Government people — met 10 times before April 1980.

They reported to the social sciences committee, which reports to the council, which in turn reports to the Minister of Science, who consults the Cabinet committee on science.

The report was politically unpalatable — nobody wants 150,000 people unemployed at



Alexander Turnbull Library



The real and ugly face of unemployment... in the 30s and the 80s.

this time, an election year. But NRAC is still working towards its publication and hasn't "thought about anything

else for the last week". The report says unemployment is costly, wasteful, unjust, divisive, economically hazard-

ous and threatens our national identity. It claims that the "real and ugly" face of unemployment

concerns 150,000 people now and is likely to rise to 300,000 by 1984-85.

But its first finding is "that the statistical basis on which decisions are being made is flawed and incomplete".

The report has several useful inputs to Government thinking, and, if it had been released when finished, at least would have been discussed.

One of its conclusions is that "the cause of unemployment resides in the institutions and structures of society".

Kerry McDonald, director of the Institute of Economic Research, last week released parts of his criticism of the report, describing it as "vague, imprecise and superficial".

He did not include part of his initial response, which was that the institute "has skills and experience that could make a productive contribution."

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Editorial

"ABOVE all, unemployment is not statistics, it is people," we are reminded — if we need reminding — by the Government-inspired publication, *Jobs and People*. Unemployment affects individuals, erodes the quality of life of their families, and has both social and economic consequences for their communities. To determine the truth of this, one need only inquire among those directly affected by a raft of recent incidents: Only about six of 39 employees are likely to be offered jobs when an Upper Hutt engineering company closes to move to Auckland later this year... about 70 employees of an Auckland engineering company hope to avoid the dole by buying their employer's factory, which has gone into voluntary liquidation... Atlas-Majestic will "shed" 70 more staff to keep in production... the Pye electronics factory in Paeroa put 42 people out of work with its closure... 10 newly qualified radiographers lost their jobs because the Auckland Hospital Board could not afford to employ them... 40 employees became jobless when a Dunedin suit manufacturing business closed.

"Suddenly you're thrown on to the scrapheap. It's rough. I've got a wife and two boys. I've applied for another job but haven't got one yet," said chamberhand Lew Boggs when union officials passed on the formal word that the Southdown freezing works would close.

Unemployment has been blamed for a doubling in the numbers of suicidal people seeking help from the Samaritans in the Wellington region... Many unemployed

are not seeking medical treatment because they cannot afford doctors' fees.

These are aspects of "the real and ugly face of unemployment" which the working party of the National Research Advisory Council confronted by talking with the unemployed, and coming to appreciate "the legitimacy of the bitterness and anger". They later reported that they found unemployment to be wasteful, costly, economically hazardous for the country, unjust, divisive, and threatening the nation's identity.

Above all, their report talked of a "substantial background of ignorance" about the causes of unemployment, and it emphasised that no-one knows the number of unemployed or the right way to determine the number (which, for constructive purposes, should command more consideration than its claims of 150,000 people unemployed — 8 per cent of the workforce — and that 300,000 people could be jobless by 1985).

But the public will be denied the opportunity to consider such statements, because the report will not be published.

Prime Minister Rob Muldoon described it as a "load of garbage" and a "thoroughly bad report" whose estimates of unemployment "have no validity whatsoever".

Labour Minister Jim Bolger dismissed it as an "alarmist scenario" and said the figures could not be substantiated. He places his confidence in the Government's method of measuring unemployment levels, by counting the number of people "sufficiently concerned about their

unemployment" to register with his department.

The resultant figures no doubt are more acceptable to Bolger because they ignore the thousands of people who are seeking jobs but who do not register as unemployed. Some are too young to register. Some are on the domestic purposes benefit, not the dole. Some are reluctant to register, lest they be considered bludgers. Many women, because they are married, do not qualify for the dole. And the departmental figure does not include people on special work, who (the point is arguable) can be considered technically unemployed.

Bolger said as recently as March it was "important" to establish who are the unemployed and how many there are. This underlines what the NRAC report says — we do not know. And our shaky knowledge foundation has implications for the quality of our economic policies, because "the statistical base on which decisions are continually being made is both flawed and incomplete".

One of the aims of the State-sanitised *Jobs and People* (which Bolger urges us to read) is to "provide a constructive and positive basis for the continuing public discussion on what more needs to be done to deal with New Zealand's employment problem." To make an effective contribution to that debate, the Government should have been prepared to give its own honest assessment of unemployment figures. It should also have provided us with the arguments for and against a number of development options that might

create jobs. It did not. It served only to present the Government's growth strategy, in election year, as the only solution to creating employment opportunities. There will be full employment when the economy is rejuvenated according to the magic National formula when we make better use of the job training schemes which a beneficent State has provided for the unemployed.

So on one hand, we are expected to have faith in the Government's expectation that 410,000 new jobs will fortuitously come from its growth strategy. On the other, must muse on the admission in March Associate Finance Minister Wally Cooper that the Government would "less than honest" to claim it had policies that would provide full employment because there is no simple remedy.

The Government seems intent on making we do not untangle the truth in these inconsistencies; and when he said earlier this year he welcomed the increasing debate on the subject, he was well informed and constructive; now know what he meant. We are expected to debate what the Government gives us. We are patronised and told we may not read a report (presumably politically embarrassing) because it does not label it "garbage". The Government cynically trumpets a code to protect individual rights and freedoms in justifying its stance on the Spring tour. But not the right to make our own minds about the worthiness of the NRB on unemployment.

— Bob Ed

The hard basic facts CAD can't avoid

by Jervis Cleary

ONE of the principal functions of the Civil Aviation Division (CAD) is to undertake what may be necessary to ensure the safe operation of aircraft (S.5(1)(b) Civil Aviation Act 1964).

Flight TE 901 was not operated safely as we know because 257 people on it died at Mt Erebus. It is inescapable, whatever the duties of others, that CAD failed in its duty.

In these circumstances it was not surprising that the Ministry of Transport and the State Services Commission sought a review of CAD's performance.

Mr Justice Mahon, in his report as Royal Commissioner, had found CAD culpable in at least one respect and to have failed in a number of others.

One would have expected the State Services Commission inquirers (Sir Richard Bolt and E A Kennedy) to have been called to answer these questions:

● Why did the division fail?

● How can a repetition of the tragedy be avoided?

Without answers to those questions, the public cannot be assured their flights are safe. Astonishingly, the terms of reference did not clearly call for answers to either question. In fact, no ordinary students of English could be sure they understood just what the terms did ask.

Unfortunately, the disservice to the public only starts there. The report of Bolt and Kennedy, now released, perhaps relying on this impression, is no more than an instrument of unwarranted criticism of the judge's report.

The two retired public servants (one a sometime flying gunner, the other a scribe) seem to have elevated themselves to the position of a court of review of the judge's report.

In the course of their meandering attempt to sideline the Royal Commissioner's findings, they:

● Misquote the commissioner.

● Misunderstand his clear criticism.

● Say they do one thing and then do the opposite.

● Obfuscate where they cannot do any of the above.

● Approve of practices the commissioner condemned.

● Reinterpret the law so as to deny the commissioner the right to find CAD had failed in its function.

● Leap in where no appellate court (let alone angels) would dare venture, namely in making findings of fact contrary to those of the commissioner!

● Call, in answer to unpalatable findings, irrelevant contentions.

● Allege findings which were simply documented were unjustified.

● Imply that the failure of Air New Zealand somehow exonerates CAD.

I will be happy to supply full justification of all these criticisms should they be sought. I trust the following examples are sufficient:

The judge's most important criticism of CAD, and the only one he labelled culpable, is

to be found at Page 151, where he says: "I think there was a breach of statutory obligation on the part of the division in that it did not ensure that there was presented at the RCU briefing a topographical map upon which was accurately plotted the track and distance formula for the flight".

In paragraph 6 of their report, Bolt and Kennedy say first that the commissioner said CAD was at fault for failing to ensure the captain was given a topographical map.

They elide the obvious concern of Inspector Chippindale about the same matter (see Pages 25 and 26 of his report). They then note that the judge's concern was with the lack of a plotted track rather than the map and point out Captain Collins got what Chippindale thought was an adequate map on the day of the flight.

Finally, they allow that giving the crew the map at their main briefing would have been preferable, but say it would not have saved the plane because the co-ordinates were changed.

They conclude that the "alleged omission" was probably not a contributing factor to the accident and that in any case CAD did not have to ensure any particular item was supplied to the captain — "that surely was the responsibility of the briefing authority — the airline itself".

If the two gentlemen had understood the report of the commissioner, they would have discovered that CAD was told by Air New Zealand the planes should fly directly over Mt Erebus but for a variety of reasons (principally the incorrect co-ordinates). In fact they flew about 27 miles away.

This was not discovered by the pilots of prior flights, at least partly because of the poor maps and the briefing which led them to expect they went near but not over Mt Erebus.

The change in co-ordinates just before Flight TE 901 put the plane on the official course, that is as advised to CAD by Air New Zealand.

As the judge noted, it is inconceivable that the crew would have deliberately brought their plane down below the top of the mountain had they known they were on a collision course with it. The only way they could have been expected to discover this before taking off was at the briefing. The obvious way to tell them was to give them a map which showed the collision course.

Thus the two SSC reporters' conclusion of fact (a correct map with track plotted at the briefing probably would not have prevented the crash) is clearly wrong.

The way in which Bolt and Kennedy slide up to this crucial finding of the judge suggest a desire — no doubt unconscious — not to allow any of the commissioner's conclusions even a presumption of correctness.

The statement that the map supplied on the day of the flight was ideal for its purpose can only have been included to derogate from the judge's conclusion.

The reporters call in aid Chippindale's approval of the map as if that supported their criticism, but at Paragraph 2.4 on Page 43 of his report the inspector said the pilots "were not shown on a topographical map that the intended

track passed almost directly over the highest point in the area, Mt Erebus (12,450 ft.). Charts were carried... but these were very small scale and not available to the crew until... the morning of the departure." He then points out the "maps" supplied were positively misleading on this point.

It is clear from this that the crew had no idea that Mt Erebus would be closer than a distant view. Surely the one high point in the area should have been sedulously avoided on scenic flights — how? By provision of appropriate maps.

Next, Bolt and Kennedy conclude that because it was Air New Zealand's responsibility to supply the maps, it was not CAD's.

As the reporters themselves note, the Act under which CAD is set up gives it the function I referred to at the beginning of this article. In carrying out this function, CAD lays down Regulation 77 of the Civil Aviation Regulations which the judge refers to in the following terms (p.151):

"It was the responsibility of the airline to procure compliance by its pilots with regulation 77, which requires a pilot to satisfy the operator that he is familiar with the flight route. It is the responsibility of the division to take reasonable steps to see that the airline is observing regulation 77".

I suggest that our two servants were derelict in their duty in assigning responsibility to Air New Zealand alone. If a regulatory and supervisory authority could shed its responsibility so easily, there would be no point in having it.

CAD exists on the premise that the airline will sometimes fail in its duty and to ensure that failure does not have the fatal results that in fact occurred. It is thus axiomatic that CAD must be watchful, even suspicious.

It should be looking for error and laxness, not expecting sufficiency.

The only question open to Bolt and Kennedy is: Does such a standard as I have proposed or the lower one of "reasonable steps" set by the

judge require the CAD to check the maps supplied at the briefing? I would submit there can be no question about it.

● The flights were unique.

● They were to a distant hostile terrain.

● They were sightseeing trips; thus CAD should have been watching for low flying or any stretching of the rules.

● They were new.

There are about 40 pages of regulations covering the processes of weighing and measuring in our lives. About three pages cover the sale of wood, coal and coke. They even specify the size of bags in which these may be sold!

If this is important enough to justify a regulation, I would have thought no-one could quibble with the proposition of the judge that CAD should ensure that the pilots of large, clumsy passenger planes are told exactly where they are going.

Finally, I point out the briefing was the only one, not the "main" one as Bolt and Kennedy put it.

It is a shame of our country that we should have been careless enough to have killed so many people. It will be compounding that shame if we fail to face up to the extent of that carelessness, and take every step to avoid its repetition next time, perhaps a 747 and thus more fatalities.

We are all too accustomed to seeing reports on reports mitigating unpalatable conclusions but the Government's haste to approve and adopt this "review" is disturbing to say the least. Had the politicians at least read the Royal Commissioner's report with concern for the country rather than their jobs, I would have thought it obvious that the only place for this latest report is the rubbish bin. Until a full review of CAD based on Mr Justice Mahon's measured criticism is carried out (rather than an attack on him) the air travellers of this country may be unsafe at any speed.

Jervis Cleary is a Wellington barrister & solicitor.

Without word of a lie

For extras...

NOT content with the smearing of blood on National Party walls the Halt All Racist Tours organisation has laid a trap for unsuspecting Wellington party nightwits. The organisation is short on funds and cut its costs by disconnecting the Wellington telephone between its two rally campaigns. Its new number used to belong to a sauna parlour — offering scrub baths, an escort service and stimulating company from beautiful girls.

Amax rewarded

AMAX, the big American mining company exploring for gold at Waihi has been the target of local environmentalists' anger. But Amax has just won an environmental award in the United States.

It received the 1981 National Environment Industry Award, sponsored by the Department of the Environment and other interested bodies, for reclamation work done at the Urad molybdenum mine in Wood's Creek Valley, North Colorado.

The mine was closed in 1974 and Amax has spent \$7 million reclaiming the valley and re-grassing the area.

Ask a silly...

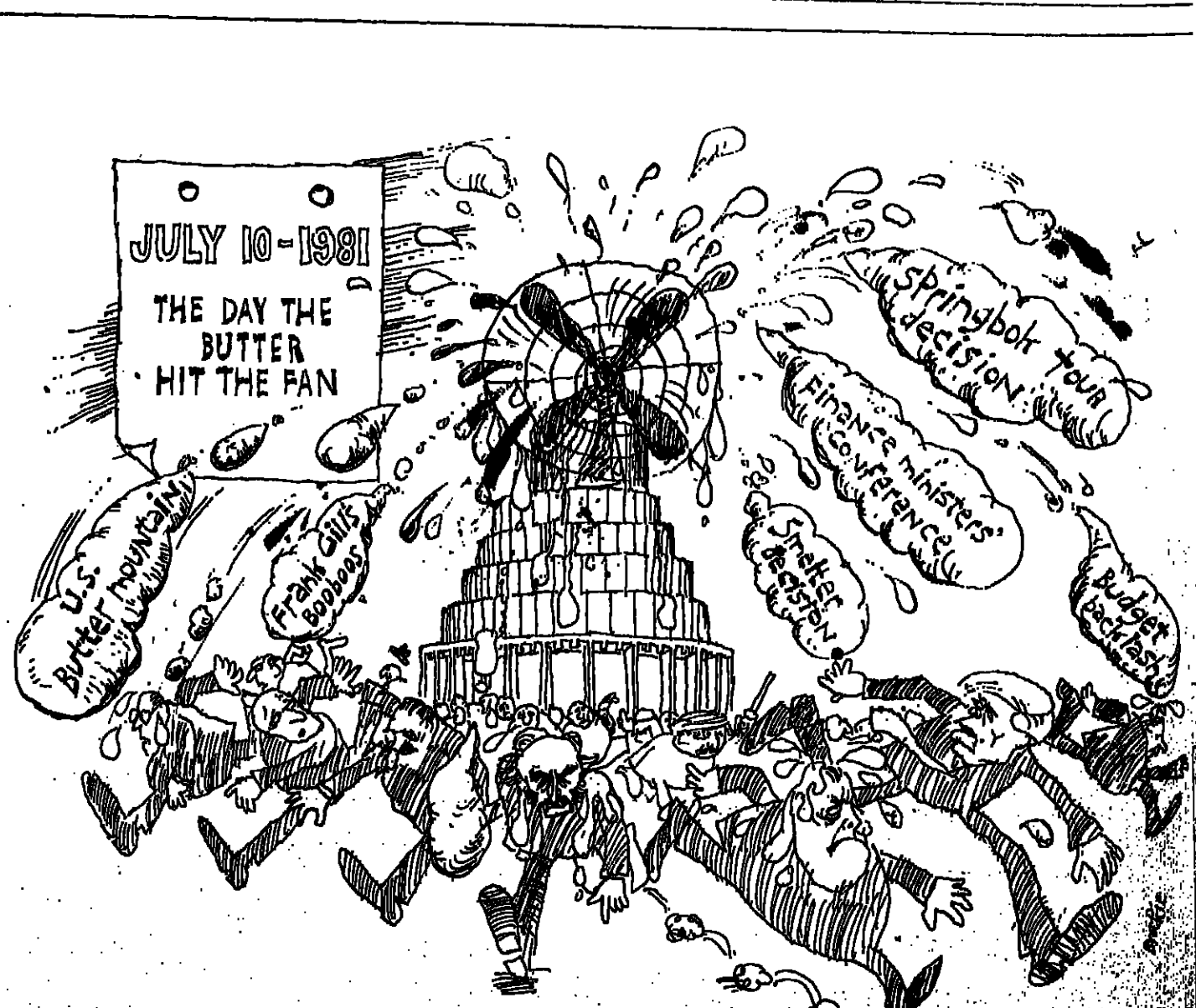
AUCKLAND Maori activist Pat Hohepa may have created a "first" in the records of Wellington's Turnbull Library.

A friend went to the library to do some historical research and noted from the visitors book that Hohepa had been there a day or two earlier.

Hohepa had dutifully filled in required details such as his name, address, and employer.

But under the heading of "research", Hohepa, unlike anyone else before him or since, simply wrote "yes".

Brockie's view



Without word of a lie



No leak — a deluge

THE "load of garbage" that "leaked" all over the media last week to inform the country that 150,000 people are now unemployed has been in the hands of and made public by several media over the last year.

The Christchurch Press summarised the findings of the National Research Advisory Council paper in August last year. Television's *EyeWitness* team used it as background for an October programme on unemployment. *NRB* was rather slow off the mark when it went to press on March 23 with a summary of the paper.

The other recent "leak" on the future of the Commission for the Environment was covered by the *New Zealand Herald* in December last year. *NRB* had a crack in March with an article based on the same Cabinet paper which is now inciting Cabinet curiosity and investigations.

Busy tone?

WE all know the line about "I arrived in New Zealand but it was closed". Well, trying ringing the Cook Islands after 5pm. All the telephone operators have gone home...

For afters...

AUSSIES don't like to mince words... as we all know.

But this little hors-d'oeuvre from an Alice Springs cafe menu seems remarkably succinct.

If jaded and hungry outbackers find the usual beer, steak and chips; beer, steak and eggs selection not quite to their taste, the bottom line of offering should revive them, even in those temperatures... "Sex, anytime, \$15."

Reach Decision-Makers in Japan

The Asahi Shimbun to publish Special Report on New Zealand

If you have something to say or sell in Japan, the Special Report on New Zealand in the Asahi Shimbun in September will get your message to the right people. Through this special report, you can reach decision-makers in Japan, key personnel in political, economic, financial and commercial circles. No other daily in Japan reaches 83.0% of Members of the Diet, 84.5% of Government Officials and 68.1% of Senior Managers of companies listed on the stock market. You can also reach 68.8% of Overseas Travellers who can afford to spend more than 2 million yen for their trip. There is no better way to promote your activities in Japan. Because there is no better way to reach the top echelon of the Japanese business and political community.

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'Misleading impression'

THE article headed "Producer board gets in on packaged liquid boom" in your issue of May 18 1981 calls for comment. There are some significant factual inaccuracies which give a misleading impression.

The article fails to grasp the essential difference between the Tetra Pak and the Pure Pak cartons. The former, which is aseptic and intended for long-life products, is considerably more expensive than the Pure Pak carton which is better suited to short-life products.

Further, in the case of milk, the UHT product for which Tetra Paks are used is itself more expensive than the ordinary pasteurised milk to which Pure Paks are suited.

It is because of its high price that UHT milk in Tetra Pak cartons has been approved for domestic sale by the Government, as there would be little competition with white bottled milk.

On the other hand, packing of fresh white milk in Pure Pak cartons would be directly competitive with the present bottle system and you are no doubt aware from stated policy that there is no intention to erode that system.

This policy is not specific to the Dairy Board, and in fact the Canterbury Dairy Farmers' milk station in Christchurch is establishing a plant, and another in the lower North Island is being mooted.

Apart from the restriction on packing fresh white milk in cartons, packers of liquid products are free to choose whatever medium they prefer. Thus the inference that the Government is supporting the introduction of Tetra Pak by producer boards has no relevance. As an example, the Auckland Milk Corporation plans to adopt for a UHT product a plastic pack different from either Pure Pak or Tetra Pak.

The article made the point that UEB Industries was first into the carton business with Pure Pak cartons but the Government prevented UEB from selling them for six years for flavoured milk packaging.

It may interest you to know that Tetra Pak made several approaches during the 1960s to package milk and these met a similar fate.

Furthermore, the conditions on import licences have only related to the sale of white milk on the New Zealand market. Thus the suggestion that Government policy was flouted by the Dairy Board has no basis in fact and there was no retrospective change in the rules.

I hope these comments put a more accurate perspective on the points made in the article.

K R Allen
Parliamentary Under-Secretary to the Minister of Trade and Industry.

WE have covered the respective merits of Pure Pak and Tetra Pak cartons in previous articles. We acknowledge that the restrictions apply only to white milk sales on the domestic market, and not to sales of carton flavoured milk.

The Milk Act makes no distinction between white milk in Pure Pak cartons and white milk in Tetra Pak cartons; nor does it distinguish between fresh white milk and UHT treated white milk.

According to Government policy, white milk was

not to be sold within New Zealand in cartons — but it was sold in Tetra Pak cartons on Great Barrier Island, and we were informed by departmental sources that the rules were later changed to allow those sales.

The department has now announced that white milk in Tetra Paks may be sold throughout New Zealand, but the restriction on the sale of white milk in competing Pure Pak still holds. — Editor.

Spelling it out to Berryman

TO SWAY the opinion of your reporter Warren Berryman from his fiercely-held conviction that the Dairy Board is scheming to take over the marketing of white milk on the local market would, I fear, require rather more than a mere restatement of the facts, which have already been made known to him.

But even leaving aside the general imputation in his article in last week's NBR that the Dairy Board is, in collusion with AHI, planning to fleece the New Zealand consumer — which is arrant nonsense — Mr Berryman has made even more errors of fact than usual in his essays on the subject.

The following points need to be made:

(1) If UHT white milk is to be sold in the domestic market it is the statutory body responsible for supplying white milk in New Zealand, the New Zealand Milk Board, which will undertake this task. The Dairy Board may — only "may" because it is yet to be asked — pack it.

(2) Speculation on the price of UHT milk is just that. The Milk Board will set the price but to the best of our knowledge has yet to do so. The Dairy Board will, if required, process town milk for a processing fee equating that of the processing input cost for its own exports. Any margin between this and the consumer price will presumably cover inland distribution; it will certainly not fill Dairy Board coffers.

(3) The licence to import a Tetra Pak machine was not given in order that Zap could be exported. The initial objective was the export of UHT white milk. Nevertheless through the development of Zap on the local market an export trade for Zap has been fostered.

(4) UHT white milk is supplied to the tiny population of Great Barrier Island (380 people) with the knowledge and approval of the Milk Board who could not otherwise provide the islanders with fresh milk. Sales of the product are handled by the distributor approved by the Milk Board, Anchor Distributors. Nobody "flouted" Trade and Industry requirements.

(5) Anchor Distributors is appointed by the Milk Board — not the Dairy Board as the article suggested — to distribute UHT white milk to ships, and ships' providers. It is unlikely that the Milk Board will use the same channels for UHT supplies to the domestic market but if it does it will be as a Milk Board distributor — not a Dairy Board distributor.

(6) Mr Berryman persistently spells Zap incorrectly. One is forced to make the assumption that: (a) he does it deliberately, which at the least is petty from anyone over the age of consent; or (b) he has difficulty in spelling small words.

All of the above information has either been previously covered by correspondence or would be readily available to a sub-editor wishing to check the accuracy of copy presented for publication.

N H Martin,
Manager,
Dairy Industry Information Services.

(1) True, the Milk Board has the statutory responsibility for supplying white milk domestically, but (as noted in NBR on May 18) the Dairy Board and town milk industry propose a joint venture to market milk products. The Dairy Board owns the Tetra Pak machine, which is being used not only to pack Zap and white UHT milk, but also fruit juice.

(2) Trade and Industry officials tell us the department plays a role in setting prices for UHT white milk in Tetra Pak cartons. And NBR has a copy of a letter from Minister Lance Adams-Schneider to Pure Pak which states that prices were "deliberately" set to avoid any erosion of bottled milk sales. We obtained our prices from the Milk Board.

(3) Zap was first sold domestically to test the market. The Dairy Board said it was only a test-

marketing exercise. Then Zap began to be sold throughout the country.

(4) This is covered in our answer to Under-Secretary Allen (first column).

(5) The point is that the Dairy Board owns the Tetra Pak machine, and increased throughput presumably benefits the Dairy Board.

(6) After untangling his way through the carton issue, Berryman finished up with blurred vision which results in mis-spellings (he's not too hot in the spelling department at the best of times). — Editor.

Offensive to all sexes?

THE advertising material you carry is generally inoffensive. However, I must protest at the Reader's Digest advertisement

(NBR, June 29, Page 10) is particularly offensive to women, and incidentally to men.

To tack the phrase "And incidentally, pick up 551,000 aspiring adult women as teenage readers as a bonus" at the very end of the wordy advertisement is enough but the content of a few words is derogatory in many ways. The use of the word "pick up", likening women to carrots... and I always under the impression that a woman was an ad without having to say so.

And, of course, mentioning the not-so-expensive product, naturally, leads the discussion round to women.

Men, too, are ridiculed. They are likened to stubborn (and stupid?) donkeys who none the less do eat carrots.

I would like to see all people advertising up to the same high standards as your journal. Robin Wilkie, Portobello

Forget the conflagration, fight the brushfires

by Colin James

FOR reasons I am not at liberty to disclose, the \$100-a-plate Jones dinners have not been accepted in some electorates and local National organisations have raised equivalent campaign contributions in other ways.

This does not reflect on the quality of the Jones-boys' after-dinner entertainment.

Bob's scerbic and brutal wit has livened the torpor of New Zealand politics with a verve those other-side-of-the-fence editors of *Double-Standard* Wellington lamp-post posters (dedicated to on-the-bone, funny libel of prominent Nationalists and other conservatives) would applaud.

Norman's short-back-and-sides knockabout epithets are very funny the first few times — until it dawns that he means

them (as it dawned on international statesman Brian Talboys trying to keep the peace when Norman let fly on the Springboks at a party regional conference in Dunedin in May).

And Dall is still a curiosity in a party which does not lightly forgive an upstart who wins with a thumping margin a hopeless seat it has palmed him off with — and who, even more indecent, chooses to step off a promotion ladder and a junior whip's pay margin on a point of principle.

The three have been doing their bit in the George Chapman memorial election drive with, apparently, fair skill. So giving them up was no mean sacrifice.

So, too, I suspect, was giving up the chance to pay \$100. Which leads me to postulate that the chance to pay \$200 would have been even more at-

tractive. In days of flash-food inflation, \$100 is ordinary bloke stuff.

Which leads me to a confident post-prediction for the Budget (which, being last Thursday night, came after this column went to the press): that it did not contain an ingenious scheme whereby the Jones-clappers could have appeared to pay \$200-a-plate while actually paying less than \$100.

This ingenious device could be yours if you lived in Sacred British Columbia.

It's a sort of A minus B theorem. British Columbia wants political parties to get ahead. And why not? Social Credit stands for democracy.

So the dedicated BC democrat out for a good time in the noble interests of party advancement is encouraged by the taxpayer.

Take a \$200-a-plate dinner (and they do, I was assured last week by a vigorous young BC Sacred electorate chairman). Ten dollars goes for the food, say. The rest counts as a donation.

The first \$100 qualifies for a 75 per cent tax credit: so you pay in effect \$25. The remaining \$90 qualifies for a 50 per cent tax credit: so you pay in effect \$45. Total \$80.

For tax reform, it is nearly as good as driving the company car on election day. Beside it, the Planning Council's "agenda for tax reform" booklet takes on the brilliance of pink blanch-mange.

That document confirms by its very slowness the paucity of preparatory work done by the Government for tax reform.

As I indicated here a few weeks back, the Government could have used the highly

favourable climate for reform of the past 2½ years to assemble the detailed background information on the impact of the various elements of the present system and their inter-relationship, but has not. It could have, but has not, fully evaluated options for restructuring.

If that work had been done, the Planning Council (sitting snug in the Treasury building, with informal, and to some extent formal, access to Treasury thinking) could have reviewed it and made positive recommendations as to which mix the Government should go for.

Instead, it was reduced to four pages of general banalities and banal generalities, a four-page recommendation for a task force to report by mid-1982 and a three-page series of thumb nail sketches of alternative tax systems.

The only "hard" item of interest was a (low?) estimate of the cost of investment and export tax incentives: \$300 million.

The council gave some credit to the Government for "much work that is already underway"; but other references are an indictment of inactivity.

Quote: "... how much can be done (by the task force) will be constrained by the limited information currently available

Quote: "It is recognised that all the intricacies of the problem cannot be fully assessed within 12 months."

And its "list of items for study" includes some items one would have thought the Treasury would have been able to pop out of its databank at a moment's notice:

Item: "Ascertain by total survey of listed companies and pilot survey of private companies what taxes are being paid on income as determined by current accounting practice and the reasons for the percentage of tax to net income differing from the legal tax rate of 45 per cent."

Item: "Determine the extent to which support through the tax system to companies, farmers, traders and partnerships is cost-effective and achieving its objectives."

Item: "Assess whether existing deductions, exemptions and rebates intended to provide income support relative to family and household circumstances achieve their objectives."

Item: "Evaluate how much existing taxes cost to collect." No wonder the Government has been diverting attention from real tax reform with a wild goose chase after a wage-tax trade-off with the trade unions.

The trade unions' job is to improve wages and conditions for members, not design tax systems — just as the rugby union's job is to arrange the best conditions and matches it can for rugby players, not (as a Cabinet minister moaned last week) decide important issues of foreign policy (or general sports policy, for that matter).

Given the long-felt and expressed "pressing" need for tax reform (the council's second-thoughts understatement — the need is urgent), the Government could have had its bureaucrats beavering away on the sort of data on which full tax reform could have been legislated for this year.

But this Government has a brushfire mentality. While a



Bernie Galvin... an empty-handed Treasury.

conflagration rages just beyond the back fence, it is busy noisily stamping out (and in some cases lighting) brushfires in the backyard.

Even the growth strategy is looking increasingly like a collection of unrelated goodies gratefully grabbed as they came within the Government's short focus — rather than interlocking bits of a jig-saw depiction of the vista to the horizon.

Thus, there is reconsideration of all-methanol fuels; thus there is an "I think" comment from Bill Birch that the second smelter will go ahead; thus Ian Shearer unsuspiciously sprays his own Cabinet mates with grapes by talking about smelter jobs costing "a staggering \$1.3 million each".

But short-focus busy-ness has its merits. If luck holds and the conflagration does not get too close, brushfires keep our eyes — and voting minds — off it.

Last week was a good week for brushfires:

● A Cabinet minister's chauffeur drove through protesters and the Government said drivers "are under orders not to stop on occasions such as that."

● A recycled (for the fourth time, including an NBR report in March) leak had us arguing about whether unemployment was "150,000" — it is, of course, much higher in real terms, since net immigration (which means jobs gone) has been about that over the past five years — or the Government's glossy *Jobs and People* figure of 47,000.

● And we had a supposed stop-the-tour message from on high which told us what splendid chaps white South Africans were really, since some of them (though it was carefully omitted, the ones now in power took a different stance) fought with us against Nazis (that is, people who took race discrimination to its ultimate, horrible conclusion). And "affair" Bill Rowling meekly mouthed his party's "cancellation" policy into "postponement".

Hart was wrong. His strategy has failed. The 60-40 call-off prediction to me a couple of weeks ago by a leading member misunderstood the true politics of the tour.

Those politics can be seen in the reaching out of ordinary National Party members in country and suburban halls for Ben Couch.

The guy struck a nerve. Those non-Jones-boys electorates could have charged \$200-a-plate for a "Night on the Couch".

Efficient layout gives generous space

Mazda exploited the advantages of front-wheel-drive concept by clever positioning of suspension units, petrol tank and engine-transaxle to provide generous space in both cabin and boot.

A low waistline and large areas of window increase the feeling of spaciousness. This is the roominess and comfort you would expect in bigger, conventional cars.

The wide, deep boot provides luggage capacity that is amazing in a car so compact. The rear seat splits 60:40 to give the cargo capacity of an estate car — invaluable for golf clubs, skis or that irresistible auction bargain.

Rear leg room is generous enough for the front seats to be reclined to the horizontal.

The driver sits in a naturally comfortable position with the pedals straight ahead, not offset as in some fowl cars. Front seats have multiple adjustments, the driver's seat cushion is even adjustable for height.

New, efficient, low friction engine

Mazda engineers took infinite pains to reduce power-robbing weight and friction in the new, E-series, 1500 c.c. engine. As a result, power output went up and fuel consumption went down.

Under test conditions the 323 Saloon achieves extremes of 100 m.p.h. (160 k.p.h.) and, when driven strictly for economy, 50 m.p.g. (5.6 litres per 100 km).



The spaciousness of a family car combined in an efficient, compact shape.

However a 323 owner should realistically expect to get a remarkably low 42.0 m.p.g. (6.7 litres per 100 km) on the open road and 33 m.p.g. (8.2 litres per 100 km) in city driving.

(Figures based on preliminary tests in a dual N.Z. conditions. Figures will vary according to individual driving styles, difference of terrain, traffic densities, weather conditions and load.)

Advanced engineering adds to driving pleasure

A sophisticated suspension system and wide track give the 323 its stable, surefooted character. Independent suspension on all four wheels using the strut system and variable rate coil springs, front and rear, smooth out bumps and flatten corners.

At the rear are Mazda's unique STTL (Splayed Twin Transverse Link) units which ensure flat, predictable cornering.

Another pleasure is the crisp, positive gear change, the result of an ingenious direct linkage and a shift gate operating in oil.

Test it and compare

The new Mazda 323 Saloon is the brilliant result of Mazda's search for greater efficiency in the car. Innovative thinking and advanced technology have produced a car with exceptional economy but which offers spacious comfort and lively, smooth performance.

Mazda's concept of total efficiency makes the 323 Saloon the logical choice as a family or business car for today's driving conditions. And, not least, because it is so enjoyable to drive.

There is a choice of 2 models: Mazda 323 Saloon 1.5 and Mazda Saloon Limited. All descriptions apply to both models and the illustrations feature 323 Saloon Limited.

All-new Mazda 323 Saloon Making sense in today's world

Look for the Mazda sign — home of Mazda Blue. Badge service. The service that cares more for your car.



MM 356 QAM



Smooth, flush front and clean, wind-cheating lines contribute to remarkable fuel efficiency and stability.

All-new Mazda 323 Saloon

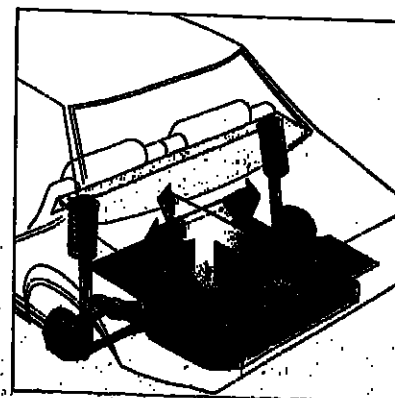
Only a car so completely efficient makes sense in today's world

THE HARSH realities of driving in today's world demand a rational, totally efficient car.

That's why Mazda set out to totally re-think the concept of the saloon car. Space, aerodynamics, power-train and handling were all painstakingly re-examined in the search for greater, all-round efficiency.

Excess weight and dimensions were eliminated to arrive at the most efficient size and shape.

Outside, it's as big as a family car needs to be. Inside, it's airy, spacious and comfortable.



Mazda's high-efficiency, 'E5' low friction engine delivers lively, enjoyable performance yet gives the exceptional economy you must have nowadays.

The all-new Mazda 323 Saloon is the brilliant result of Mazda's philosophy: a family-size car that makes no compromise with space, comfort or performance.

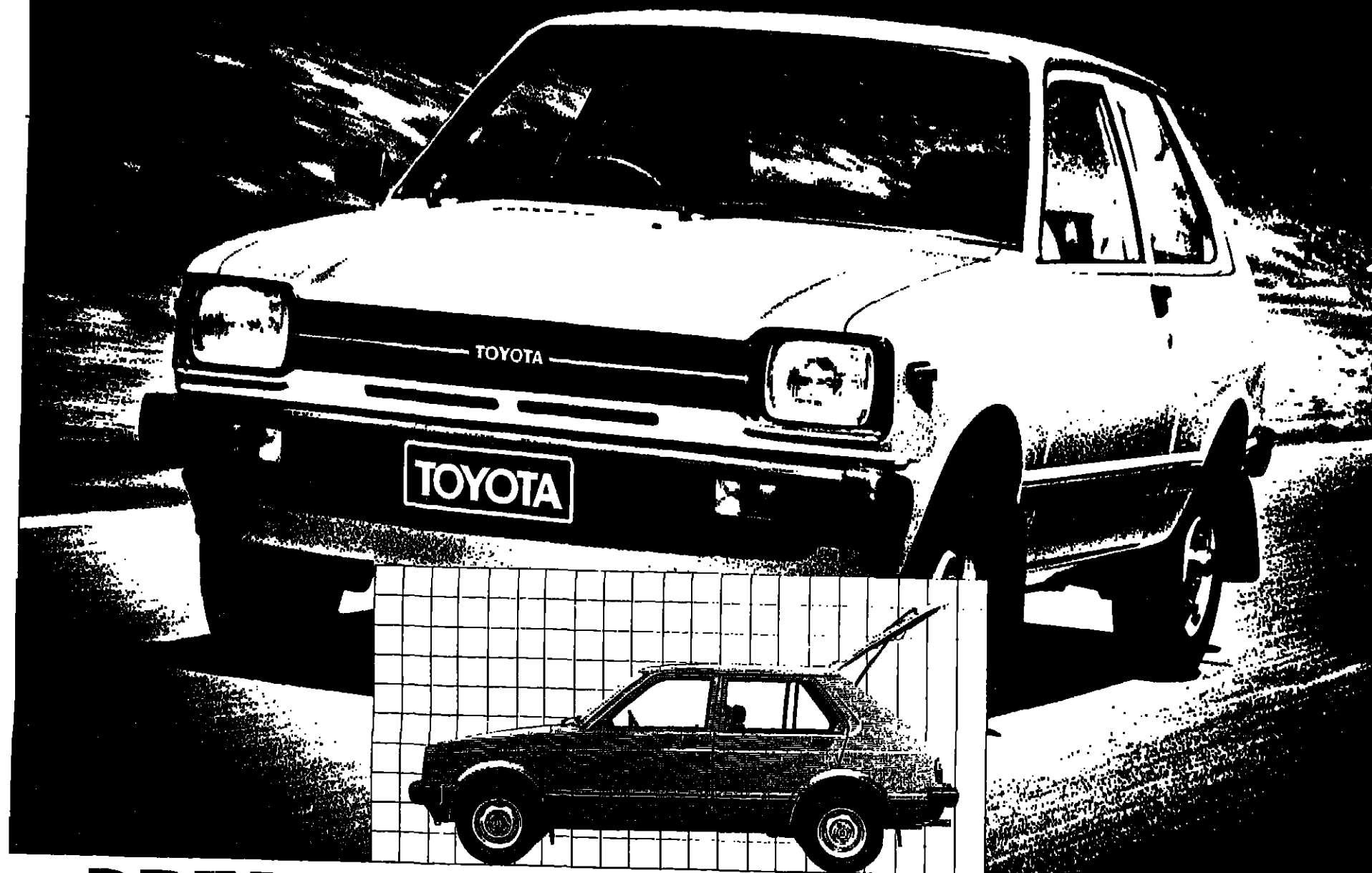
Clever layout of rear-suspension allows maximum interior roominess for passengers and a wide, deep boot for luggage.

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DRIVE THE PROVEN HATCHBACK.

COMPARE ECONOMY.

Today, everyone who makes a car wants you to believe they have mastered economy. But only Toyota can offer you the absolute economy of an advanced 1000cc engine.

The authoritative EPA (Environmental Protection Agency) in the United States has recently confirmed that Starlet is the most economical petrol-driven car in the United States.

COMPARE RELIABILITY.

Reliability is never proven on a test track. It's proven by thousands of owners over millions of miles. Consumer research has placed Starlet tops for reliability in the hotly competitive European small car market (West German Consumer Magazine report).



And Starlet gives you the undoubted reliability of rear wheel drive. This is technology that everyone understands — sensible, proven and trusted.

COMPARE PRICE.

Not only will your Starlet be less-expensive to run, you will pay less for it in the first place. You could save yourself up to \$1,000. Toyota technology gives you minimal cost motoring without sacrificing quality! Starlet is brilliant proof of how successful that technology is!

STARLET DL 3-DOOR: \$8,895.
STARLET DL 5-DOOR: \$9,295.

Toyota Dealer Standard.
Upholding the reputation
at:
Toyota Dealers
Nationwide

TOYOTA Ahead in the 80's.

Economics

Borrow and boom — or borrow and pray?

by Bob Edlin

"RESTRAINT in wages and incomes today will mean more job opportunities and business success in the future," Finance Minister Rob Muldoon assured us in his 12th Budget.

He sees a rosy future; this is the last of the bad years and — as he told a television interviewer — "we'll probably be trying to restrain a boom next year".

Muldoon obviously sees it as the borrow and boom budget... he could "say with confidence for the first time since 1973 that the future for New Zealand and its people is bright", and the economy was "set for a prosperous future".

It might also be dubbed the borrow and pray budget. The boom remains an article of faith; the borrowing is burgeoning.

Simply, the Budget calls for even greater government spending, a much greater deficit before borrowing, and for the taxpayer to squeeze every drop from us (wringing more out of smokers, drinkers and travellers, turning to credit-card holders as a fresh source of state revenues, and relying on fiscal drag to effectively increase income taxes).

In a year in which restraint is called for on one hand, the biggest-ever Budget night deficit is provided for on the other. That's the gap between what the Government hopes to raise in revenue, and what it proposes to spend. And Muldoon has increased it by a massive 37 per cent, to \$2050 million (or 7.4 per cent of GDP).

Given Government's general inability to meet Budget night targets, it is likely to finish up higher than that.

The means by which more than \$2000 million will be bor-

rowed by the state has, obvious implications for the economy generally. But the Budget keeps us in the dark about the Government's borrowing plans and intentions.

In 1979-80, most borrowing was internal and \$661 million was raised overseas. Last year, there was a significant switch and overseas borrowing — more than twice as high at \$1510 million — was the major source.

Whatever the source of borrowing, inflation will be spurred by the Government's spending more on its own activities, much of it in salaries. As spending is stimulated, there will be pressure on prices.

Muldoon acknowledges the effects of double-digit inflation... he says many governments are coming to view that a return to sustainable growth will not be possible until inflation is controlled.

Echoing the warning of the Planning Council's economic monitoring group, he says: "So long as inflation rates remain high, investment patterns will be distorted and long-term investment discouraged in favour of projects with a quick payback." He did not implement the EMG's call for an attack on inflation, which would call for a much smaller deficit before borrowing and for a concerted effort to curb state spending (through cuts in producer subsidies, for example). Rather than action, we have threats.

While Government spending remains high, the private sector is warned it must exercise constraint.

● There is a threat to reintroduce wage controls ("The Government will act resolutely, if necessary, in the public interest. If this requires the imposition of controls on wages

GOVERNMENT SPENDING \$million			
	1981	1982	Percent rise in spending budgeted spending
Administration	786	929	18.3
Foreign relations	578	682	18.0
Development & Industry	797	1086	36.1
Education	1292	1476	14.1
Social Services	2690	2924	12.9
Health	1356	1532	13.0
Transportation & Communication	333	435	30.6
Department servicing & miscellaneous investment transactions	991	1194	20.5
	8722	10,256	17.6
Supplementary estimates		260	
Miscellaneous financing transactions	411	411	—
	9133	10,917	19.5

we will face up to that unpleasant eventualities".

● And a threat to control finance institutions ("The Government is determined to maintain a firm grip on the growth rates of the money supply and credit aggregates and, if these begin to accelerate unduly, then appropriate action will be taken. The banks and other financial institutions would do well to bear this warning in mind").

Muldoon had scant room to manoeuvre on the tax front, essentially because his past policies have lifted the deficit before borrowing to record levels. Thus there are no tax concessions. (Muldoon found a scapegoat: "The FOL let me down" he complained).

There was not even a commitment to tax reform, merely an indication that the Government would be "giving careful consideration" to the approach suggested in the Planning Council's recent report and the public debate on it.

tions of their incomes are taken in taxes.

Income tax remains by far the greatest source of revenue. The Government will take 75.5 per cent of its income from direct taxes this year (0.5 per cent more than the portion taken from wages last year).

The income tax take is up 17 per cent, to \$6200 million. What we don't know is how much will be taken from companies. The company tax collection is falling (it was only 8 per cent of total revenue in 1981), and individuals are carrying an increasingly greater burden (now almost 70 per cent).

Overall, the tax take is up 16.5 per cent, to \$8216 million.

Social services and health are the only state sectors to be given spending increases of less than 14 per cent (the figure which the Institute of Economic Research forecasts inflation may fall to this year).

But social service estimates are usually underestimated (governments reason that it's best not to tell us the real

figures, because that might give a hint as to what they expect inflation to be, which would be exploited by unions negotiating awards).

The sector to enjoy the greatest increase in its budget allocation is "development of industry" (up 36 per cent to \$1085 million). Fuel and power is the greatest beneficiary. The allocation for the Ministry of Energy is up by almost 80 per cent (to \$246 million).

Under "land use", (which also includes the Agriculture and Fisheries, Lands and Survey, Maori Affairs and the Rural Bank), the Forest Service is given the biggest increase — up 31 per cent in net terms to \$233 million.

"Other industrial services" (whose allocation is up 30 per cent) includes the Department of Labour. A hefty 45 per cent increase (to \$246 million) has been allocated to this department, which employment and training will consume \$209 million. That is 86 per cent of the net estimated expenditure of the department.



**WE'LL GIVE YOU
A GOOD TIME ...
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TOD 194



Foreign affairs

Rattling skeletons may well have grave consequences

Diplomatic Correspondent

THE developing reaction of the Government to its Commonwealth critics over the rugby tour issue appears certain to maximise illwill against New Zealand which will endure when the tour itself has long been forgotten.

Responsibility for the tactics now emerging lies with Prime Minister Rob Muldoon, who is rapidly adding to his reputation as a scrapper ready to enter a brawl no matter how harsh the odds look in the roughhouse.

Last week his approach was termed by a visiting Australian diplomat as a totally cynical one likely to draw admiration for the political nerve it reflects but also to draw a good deal of resentment from New Zealand's Commonwealth partners.

Skeletons in various Commonwealth national pockets were being rattled by the Prime Minister in retaliation for the racial insults he believed were directed by black Africa against his country.

Among them were the records of various African countries on human rights issues; Australia's willingness to drum up greater trade with South Africa; Britain's double-edged dealing with Nigeria on the one hand and South Africa on the other; and Africa's willingness to go all out for a sports boycott of South Africa while not being prepared to place a trade boycott on the republic.

Protectors of New Zealand's image abroad were quick to point out that so far Muldoon's calculated bull in a china shop act had amounted to little more than threats of action. The distinction between threats of

action and action itself was important, they said.

But on the assumption (at the time of writing) that the Rugby Union will not call off the tour before it gets under way, the first of the threats is likely to be called into question virtually immediately.

The Commonwealth plans to transfer its annual finance ministers' meeting to the Bahamas. Auckland won't have the pleasure of the ministers' company and the Government will have to face up to the issue of repudiation of the Glen-eagles Agreement and a decision not to attend the Bahamas get together.

There is an implication in the transfer decision which carries an ominous warning for New Zealand. It is: Be warned, if you want to rake over our dirty linen don't expect us to muzzle

either our tongues or our political clout.

A fascinating aspect of Muldoon's actions so far concerns the British Government. The Prime Minister has publicly told of British support for his interpretation of the Glen-eagles Agreement. It could follow from this that he would not wish to proceed in a way likely to embarrass this support.

Yet in pursuing the question of a trade boycott on South Africa he brings up the prospect that his friends in Westminster may have to face awkward moments squaring off their relationships with Nigeria and South Africa.

There is little doubt it will be achieved but the man (nation) who provoked the matter is not likely to move up in popularity ratings.

The sports boycott of South Africa was conceived partly

because it offered a means of illustrating contempt for South Africa's apartheid policies without hurting in any meaningful way those who supported it.

Realists have regularly said the prospects it would bring about change in the system of apartheid were so slim as to be virtually non-existent.

Internal economic developments, particularly demand for a higher-paid more skilled black work force, were, and are, frequently cited as more likely to force change on the system.

But the sports boycott served as a non-violent and practical means of bringing home to South Africa's white man-in-the-street the depth of international feeling against the racial system his rulers enforce.

That such a boycott does not intrude on the realities of commercial life and economic considerations in which political skins can be placed at risk, added to its attractions as a sanction measure to most Commonwealth nations.

About Parliament Buildings, MPs consider Muldoon's belligerent stance will be well accepted in the marginal rural and semi-rural constituencies National wants to hold in November. He has shown he knows the skeletons to rattle and his ability to rattle them to effect.

It may be that the jingoistic overtones of us against them and the readiness of rural based communities to accept a Lager-type approach of defiance are helpful in an electoral sense — better to be in power next year to handle the situation whatever it is than in the wilderness of powerless opposition.

But the Nixon-like cynicism of the approach is not likely to be forgotten in Canberra, London, Lagos, Kuala Lumpur, Jakarta and at the United Nations headquarters in New York.

Muldoon has shown himself up this week as willing to interfere with the freedom of his traders — albeit reluctantly — to accept a trade boycott with South Africa. But he has repeated his determination not

to interfere with the freedom of his nation's sportsmen.

Most of New Zealand's farmers rate their ability to sell their products where ever at the highest possible price ahead of any sport, be it rugby or pig-punt. An electoral schism best may be showing.

There is speculation the anti-tour groups may force abandonment of the tour at some stage. Muldoon could then claim the people's feelings of dislike for apartheid had shown up as a true reflection of national commitment to make racialism.

The skeleton rattling now under way, however, is likely to be remembered long after a step. Resentments and bitterness engendered by the Prime Minister has chosen to follow in reaction to Commonwealth critics will not dissipate quickly no matter how smooth an effort Wellington's diplomats mount to minimise the damage.

Exchange rates

AS at July 9, NZ dollar sells at	
Britain	4.48
US	3.95
Canada	1.008
Australia	7.97
Fiji	7.16
Austria	14.0
Belgium	33.67
China	1.382
Denmark	6.427
France	4.855
Greece	50.20
Hong Kong	4.732
India	7.400
Ireland	5.66
Italy	1019.68
Japan	190.91
Malaysia	1.958
Netherlands	2.289
New Caledonia	
and Tahiti	88.51
Norway	5.073
Pakistan	8.191
Portugal	53.8
Singapore	1.809
South Africa	7.90
Spain	81.57
Sweden	4.334
Switzerland	1.755
West Germany	2.059
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Sharemarket

A whine about wine: what about the shareholders?

by Klaus Sorensen

JUST as it looked set to lose its sparkle, the wine industry is back in the spotlight.

This competitive industry is already trying to cope with the new tariff structure on imported wine as well as more stringent Health Department standards — and a major market swing to packaged medium white wines.

A shortage of grapes has hampered attempts to meet the popular demand, and has led smaller manufacturers like Penfolds to seek mergers with the larger companies, which generally have a large number of contract growers to help them through grape shortages.

But now it seems the wine industry is in for some attention from the liquor industry.

After weeks of rumours in Auckland, Cocks Wine last week unofficially revealed that it believes McWilliams Industries is trying to buy a 24.9 per cent shareholding in the Te Kauwhana winemaker from the largest shareholder, CBA Finance Holdings.

Cocks has already withstood bids from Rothmans (which owns Corbans) and Penfolds.

But it seems Cocks is worried that its latest suitors will find it is a case of "third time lucky".

Not only is McWilliams a competing winemaker; it has liquor industry links, and these are apparently causing considerable anxiety in the Cocks boardroom.

Cocks is also unhappy that CBA Finance (formerly Transvision) is keen to get rid of its 30 per cent shareholding after it assured the examiner of commercial practices in 1979 that it was intending to be a long-term holder.

But then CBA Finance Holdings was a more diversified and entrepreneurial animal in those Transvision days, and while Cocks might feel the company's decision to quit its wine investment is ungentlemanly, it is a fact of business life that control of a company can change at the sight of a fat cheque-book.

That's why Transvision Holdings became a 51 per cent subsidiary of the Commercial Bank of Australia.

Cocks directors received warning that the CBA Finance holding in their company could be up for sale when CBA announced plans to float the television rental activities — the

implication being that the bank was interested in financing, not television rental, or wine for that matter.

But the Cocks directors' prime concern is McWilliams.

Most think of the local McWilliams operation as a subsidiary of the Australian concern of the same name, but the local company's list of shareholders reads like a Who's Who of the liquor trade.

McWilliams Australia has the largest shareholding (33.5 per cent), followed by Ballins Industries (28.7), Lion Breweries (24.1), Dominion Breweries (10.3), Campbell and Bherenfield (1.9) and Hughes and Cossar (1.4).

With a line-up like that, no wonder "poor little Cocks Wine" is feeling threatened.

But it seems Cocks has learnt a lot from its two previous skirmishes, and is taking an active role in this fight.

But while Cocks has been active behind the scenes, it is saying nothing publicly. So it is more a case of "poor little Cocks Wine shareholders".

The owners of the company are in the dark about what is going on and whether they should take advantage of the 20c rise in the company's share price in recent weeks.

As usual in these situations, there are two markets — one informed, the other at a loss to know what to make of all the veiled suggestions, and speculation in the daily papers.

Cocks public relations consultants were on the job as early as Friday July 3, talking to the press, and generally trying to draw attention to the McWilliams plans.

A measure of their success was that by the middle of last week the sharemarket and the dailies were full of speculation, even though neither Cocks nor McWilliams had said anything publicly.

One Auckland paper covered a range of popular scuttle-but in a story headlined "Cocks will fight bid for control by McWilliams".

No doubt that headline was equally surprising to both the Stock Exchange Association, and to those Cocks shareholders not privy to market talk.

That it was not attributed to Cocks, the story said the wine company intended to fight because it did not believe it and McWilliams are compatible.

It went on to say that Cocks did not believe a merger would be in the best interests of itself or its consumers.

And that is where there seems to be some confusion. Where a listed public company is concerned the prime interest to be considered is that of the shareholders.

That interest could have been best served by the Cocks directors notifying the Stock Exchange, as soon as they had evidence that another wine company was thinking of buying a major shareholding, that discussions were taking place which could affect the value of the shares.

Cocks' shareholders then would have been warned at least to hold on to their shares. Instead, Cocks' shareholders were left with no more than a number of "suggestions" in the papers.

The Auckland paper said Cocks is expected to use similar tactics to those which defeated the Corbans and Penfolds takeover attempts, stressing to the examiner that it is

not in the interests of the company, the growers or the public.

Not a bad bit of speculation, particularly as nobody but Cocks would know what sort of defence it intended to use.

Another suggestion was that "McWilliams hopes to use its shareholding as a springboard to get control of Cocks — probably by using affiliates to buy sufficient additional shares to get a majority shareholding".

But neither McWilliams nor its alleged "affiliates" would be likely to tell the papers how it intended to control Cocks — so that information must be regarded as pure conjecture, and rather irresponsible at that.

Theory No 3 is that McWilliams is eyeing Cocks management team and its "efficiency winery". But the paper said that because all Cocks growers signed a contract last

year giving them the right to opt out of all contracts in the event of a takeover, "it would be possible for Cocks management team to leave the company and start a new one, in partnership with their growers in Hawkes Bay".

Again, this tends to overlook the fact that the shareholders are the proprietors of the company and that the executives owe their loyalty to them.

The paper seems to be suggesting that if McWilliams were successful in gaining effective control of Cocks (be it 24.9 per cent, 30 per cent or 51 per cent) the Cocks executives would simply leave the company — and the remaining ordinary shareholders — to set up a new company which would compete with Cocks New Zealand Wine Co — using Cocks former suppliers.

Charming.

The newspaper also suggested that "the industry believes McWilliams move has been spurred by its brewery shareholders, especially Ballins, which is dissatisfied with the company's drop in market share," and that "the brewery shareholding in McWilliams and its insistence on special trading rights with the company is one reason that Cocks has no wish to merge."

Not bad, considering Cocks had yet to tell the exchange (and therefore its small shareholders) about the manoeuvrings and its objections to them.

NBR understands the Cocks directors were "notified" (whether officially or unofficially is unclear) of McWilliams interest in the CBA Finance shareholding more than a week ago, and it seems fundamental that they should act promptly



to inform shareholders of the interest.

But it seems even more fundamental that the directors and executives of a company should seek to get the best deal for shareholders. Where there is a bidder or potential bidder they should not act to discourage that bidder until the terms of the offer are made known.

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Finance

The business week

Alliance Textiles Ltd will pay a dividend at the annual rate of 12 per cent for the six months ended July 31, 1981 to holders of redeemable specified preference shares.

Consolidated Minerals and Fletcher Challenge Ltd have entered into a joint venture to investigate peat wax deposits on the Chatham Islands. Fletcher Challenge will have a 51 per cent interest. Consolidated Minerals retains 49 per cent. Subject to Govern-

ment approval Consolidated Minerals has entered into a joint venture with Mining Houses of Australia Ltd for rutile exploitation at Transit Beach. Consolidated Minerals will make a 1-for-4 share issue to shareholders on the register at 3 July. Australian Paper Manufacturers Ltd has received 91.2 per cent acceptance for its takeover offer for Containers Ltd and is entitled to 92.5 per cent of the 5 per cent preference shares and 94.1 per cent of the 6.5 per cent preference shares. The offer is declared free from conditions on June 10, 1981 and will close

on July 8, 1981 for the ordinary shares, July 9 for the 5 per cent preference shares and July 10 for the 6.5 per cent preference shares.

Dominion Breweries Ltd: unaudited group profit for year ended March 31, including group earnings in associated companies, was \$9,602 million, an increase of 46.1 per cent. Final dividend is 11.5 per cent, 6.5 per cent tax-free. A 1-for-5 bonus issue is also recommended.

Henderson and Pollard: after-tax profit for the year ended April 30, was \$3,122,297 (last year \$2,306,475). A final dividend of 15 per cent is recommended, making a total for the year of 20 per cent (last year, adjusted, 16.4 per cent), payable on August 11. A 1-for-6 bonus issue is proposed and a share split into two 50 cent shares.

McConnell Dowell Ltd has acquired a substantial interest in Hawkins Holdings Ltd. Hawkins directors recommended a change of the company articles increasing the

maximum number of directors from seven to nine.

Property Securities Ltd received a takeover offer from New Zealand United Corporation Ltd. Property Securities directors have commissioned an independent valuation of the company's assets and shares. When the results are known, they will make a recommendation.

Schofield Holdings: after-tax profit was \$792,201. A final dividend of 9 per cent is recommended, making 14 per cent for the year (last year 12 1/2 per cent).

Waitaki NZ Refrigerating Ltd: Interim dividend to ordinary shareholders of 9 per cent (last year 8 per cent) is payable on July 30, 4.5 cents tax-free.

John Webster and Co Ltd: Tax-paid profit for the year ended March 31 was \$300,307 (last year \$221,425). A final dividend of 9 per cent, making a total of 15 per cent for the year (last year 14 per cent), will be payable on August 27. Wrightson NMA Ltd com-

pleted acquisition of a 20 per cent shareholding in Southland Frozen Meat and said that it had no intention of going above that level. In an off-market transaction, the Primary Producers Co-operative Society shareholding in SFM was purchased by Wrightson NMA, with full agreement of the SFM board.

Economic indicators

THE current account deficit on overseas transactions for May was \$39 million, compared with \$52 million in May 1980. For the year ended May 1981 the current account deficit stood at \$780 million, compared with \$793 million, for the year to April 1981 and \$560 million in the year to May 1980.

DAIRY receipts also benefited from higher international market prices and another season of high milk production. But manufactured exports were

boosted artificially by the receipt of some of the proceeds of an Air New Zealand sale of two aircraft. Imports rose by 20 per cent to \$486 million, giving a surplus on trade transactions of \$137 million.

THE number of industrial stoppages for the March quarter showed a marked rise particularly in February. Of a total of 78 stoppages with a sum duration of 300 days, 39 happened in February, and in total they lasted 143 working days. Over the three months 32,517 workers were involved in stoppages and 117,428 working days were lost.

PRELIMINARY counts from the 1981 census show a dramatic population increase in Manukau City. The gain in population is 19,108, a 13.7 per cent jump to a total population of 158,167. The Manukau city is now the second largest behind Christchurch, Auckland and Wellington cities proper — not to be confused with overall urban areas.

From Page 3

will affect companies like Rothmans, but historically higher prices only reduce consumption temporarily.

The increases in beer prices might also be expected to have a negative effect on the brewers, but a more flexible pricing policy evidenced over the past year, should keep brewery profits intact.

And there could be a bonus element in the greater duties on higher-alcohol beers, as this will apply to the Australian imports which have made life difficult for local brewers.

With benefits for farming, building and fishing, the country's largest company — Fletcher Challenge Ltd — might be considered a major beneficiary.

But according to FCL chairman Ron Trotter, "I didn't quite see it that way."

Trotter told NBR the references to forestry industry incentives were difficult to comment on because of their vagueness, but he believes it would be unfair to single out forestry if export incentives are to be altered.

It was a "stand-still Budget" and the high deficit "is still worrying," according to Trotter. He believes the impact of

the housing benefits on FCL would be only moderate as they relate more to house-owners than to housing starts, and Trotter regards the increases in Rural Bank lending as much more significant.

"They are a good thing — there is no doubt about that — because they will maintain the general development momentum in farming."

"We neglected farming for a decade and now the industry is moving ahead very well — we are maintaining confidence and morale which is terribly important after a belt tightening in the 1970s."

"Farmers are only just getting back their confidence to reinvest."

But one aspect of the Budget had Trotter perplexed — the imposition of a 5 cents transaction duty on credit card transactions.

As the owner of the American Express credit card in New Zealand, the move was "a discouragement to a much more efficient funds transfer system" and Trotter said he couldn't see why the duty should be linked to cheques — "as the two just don't relate."

"It's going to be an expensive tax to collect too," he said.

For industry generally, the Budget provided little in the way of specifics apart from an increase in car depreciation allowances to 11 per cent, of the land tax decision and energy investment moves.

Rather, the message for manufacturers lay in the general statements surrounding the detailed new moves.

Perhaps the most important is the Government's continued public stance on market forces — the Quigley syndrome. Said Muldoon: "... market forces must be allowed to operate more freely."

To this end, Muldoon spelled out clearly that the import licensing system is not a sacrosanct protective device.

"When taking decisions on industry plans arising from the industry studies programme, and on protection issues generally, the Government is prepared to replace import licensing gradually with tariff-based protection while maintaining by world standards a reasonable level of protection."

Muldoon instanced the recent decisions on the tobacco industry and added: "The distortions which exist in the protective structure will be eliminated by moving pro-

gressively to a more uniform level of protection." (He promised, however, that such changes would not be disruptive.)

This mandate has obviously been influenced by the proposed closer economic relationship with Australia although negotiations against licensing have been evident for several years.

Certainly, the Australians have long regarded New Zealand's licensing system as antiquated and Muldoon used the Budget as an opportunity to declare "a broad outline of a closer economic relationship has now been agreed, and negotiations on a number of specific issues are continuing."

Last year Muldoon said in his Budget: "Certain problems (over CER) have been identified. I make it clear that if these cannot be surmounted this exercise will have to be abandoned, a result which I would regret."

The CER mood has thus become more positive.

Muldoon also continued recent indications that the "Think Big" strategy is not meant to overshadow or override smaller businesses, which provide the bulk of the nation's commercial activity.

Stock Exchange weekly review

FOR WEEK FRIDAY JULY 3 TO THURSDAY JULY 9

	Last sale	Week's high	Week's low	Turnover		Last sale	Week's high	Week's low	Turnover		Last sale	Week's high	Week's low	Turnover
Airwork, 50c	125	125	125	6500	Hawkins, 50c	112	114	112	12200	S F M	295	310	290	62800
8% pr	385	385	375	800	8.5% pr	280	280	280	1500	Spedding, 50c	70	70	70	14500
Alex G & N	172	172	170	6000	H B Farmers	280	280	280	700	12% conv pr	143	145	143	49400
Alcoa, 50c	285	285	280	33800	13% conv pr	276	282	276	20800	Steel & Tube, 50c	158	158	158	3800
A H I	225	225	225	80000	Healing	162	162	162	200	Suckling	150	150	150	100
Allianco, 50c	118	118	118	118	12% conv pr	400	400	400	0	Taylor	163	163	160	1900
12% conv pr	128	128	124	13800	H Pollard	182	182	182	6400	Telthorn	135	135	135	0
Allfax	340	345	340	7800	Henry Berry, 50c	600	600	600	150	12% conv pr	315	315	315	900
12% conv pr	380	380	380	800	Holeproof	162	162	162	200	T J Edmonds	185	185	185	4800
Alloy Steel	225	225	225	2000	Hume Industries	40	40	40	0	Tourist Corp of Fiji	40	40	40	0
A M Bailey, 50c	255	255	255	2000	I C I (NZ)	230	230	230	2900	Trans Ashburton, 50c	60	60	60	4500
Amplol Pat, 50c	247	247	247	0	Ind Broadcasting	230	230	230	3000	TNL Group, 50c	115	118	114	22800
A Beaven	150	150	145	16700	Ind Chem, 50c	225	225	225	0	10% conv pr	88	88	88	2800
11.5% conv pr	130	130	130	2800	I Watkine-Dow, 50c	250	255	250	2100	12% conv pr	105	105	105	6800
18 con pref	142	142	142	3600	James Smith, 50c	80	80	80	0	Trans (Nth Cnt)	138	138	138	1300
Andas Group	150	150	150	1100	14% conv pr	80	80	80	0	13.5% conv pr	115	115	115	1300
5-6.5% pr	121	121	121	400	12% conv pr	80	80	80	0	15% conv pr	115	115	115	1200
12% conv pr	130	130	130	400	J Burns	98	98	98	500	U E B, 50c	127	127	127	28000
ANZ Banking Group	382	383	380	28600	14% conv pr	210	210	210	200	6.5-7.5% pr	115	115	115	0
A Wright	370	370	370	0	John Edmond	245	245	245	700	12% conv pr	110	118	110	17600
'A' 6-7.5% pr	80	80	80	0	J Webster, 50c	75	75	75	8900	15% conv pr	72	72	72	16500
'B' 6-8% pr	60	60	60	0	55	55	55	400	United Bldg	110	110	110	0	
A Barnett	310	310	300	1700	J Nathan	135	135	135	200	United Publishing, 50c	285	285	285	0
A Ella	48	48	45	7100	J Ratray	285	285	285	1900	Vacation, 50c	95	95	95	6000
Ashby Bergh	380	380	380	400	12.5% conv pr	195	195	195	100	12% conv pr	75	75	70	13800
A B Cables	320	320	320	3800	L W Rudkin, 25c	88	88	81	49000	12.5% conv pr	75	75	70	100
Atsea, 50c	48	48	48	21600	12% conv pr	125	130	125	8300	Waitaki-NZ	255	255	250	44000
10% conv pr	48	48	48	8100	Lanes, 50c	95	95	95	100	11.5% conv pr	200	202	200	900
Auck Gas	560	560	560	700	L D Nathan	222	222	225	12300	Walker & Hall	450	450	450	181
Aurora, 50c	213	213	212	900	15% conv pr	222	222	222	1500	Wattie, 50c	111	111	110	33200
10% conv pr	280	280	280	0	Leyland, 50c	153	154	152	149500	12.5% conv pr	111	111	110	4200
14% conv nts	160	160	160	500	Lion, 50c	153	154	152	149500	Weiges	430	430	430	0
A C I	270	270	270	100	12% conv pr	122	122	120	17700	Westbridge	285	285	285	0
Autoat Sanyo	282	282	282	100	L & M Oil, 50c	37	37	36	23900	Wilkins & Davies	440	450	440	4100
Balls, 50c	84	84	84	800	Lusteroid	280	280	280	200	5.75-7.5% pr	58	58	58	0
Ballina, 50c	128	128	128	24000	Maitland Corp, 50c	110	110	110	500	12% conv pr	143	143	143	4200
11% conv pr	112	112	110	1600	11% conv pr	300	300	300	3200	Wilson & Horton	435	435	435	4200
Bank NSW	525	535	525	400	Manawatu, 50c	215	215	215	700	Wilson Distillers	112	112	112	10700
Beach Petr, 50c	445	445	445	500	Marac	430	440	430	1100	12% conv pr	165	170	165	4700
Bing Harris, 50c	380	380	370	1000	McAlpine, 50c	112	112	112	3800	Winstone, 50c	73	75	89	108200
B N Z Finance	138	144	125	57800	McKee's	210	210	210	1300	WVW's (NZ)	72	72	72	700
Bridgevale Mining	467	470	460	35400	11% conv pr	190	190	190	0	Wormald	315	315	315	0
Brierley, 50c	255	255	255	400	Min Resources, 20c	120	120	120	98900	5-7.5% pr	112	110	110	1600
16.75% spec pr	72	72	71	4000	M O'Brien, 50c	85	85	85	400	W Sutherland	415	420	400	30100
B H P, 200c	2500	2500	2480	2500	12% conv pr	85	85	85	400	Yates Corp	165	170	165	15500
Brother, 50c	83	83	83	0	Montana, 50c	147	152	143	39400	12% conv pr	165	170	165	15500
Bunting, 50c	145	145	145	8400	M-P I M	210	210	210	800					
C P D	380	384	380	15000	Motor Holds, 50c	188	190	185	22500					
10% conv pr	380	380	380	800	Motor Trade, 50c	78	78	78	11600					
C F M	355	355	355	800	8-8% pr	82	82	82	800					
12% conv pr	250	250	250	0	11.5% conv pr	61	61	61	800					
Cant Flour	378	378	375	3400	MSI Corp, 50c	100	100	100	20300					
Cant Timber	375	375	375	800	12% conv pr	100	100	100	1800					
12% conv deb	375	375	375	800	14% conv pr	194	195	194	23800					
Capital Radio, 25c	120	120	120	1200	M I M Holds, 50c	750	750	750	24400					
Capital Life, 50c	300	300	300	200	Nat Insurance, 50c	310	300	300	0					
Carbonic Int	460	460	445	3200	Nevelor	150	150	150	0					
Carter Holt	280	270	280	500	5% pr	30	30	30	0					
CBA Finance, 50c	305	310	285	63200	Neil Holdings, 50c	85	91	85	62100					
CCL	170	170	170	500	N Z Cement	140	145	140	10600					
Cerance	400	375	370	2700	N Z F C, 50c	158	158	150	10600					
12% conv pr	375	375	370	2700	11% conv pr	130	130	130	100					
18% red spec pr	375	375	370	2700	N Z Farm Fert	220	220	220	28000					
Chenery	320	320	320	0	12% conv pr	185	185	185	2400					
Ch'n Gas	370	370	370	0	14% conv pr	170	170	170	18700					
Ch'n Press	370	370	370	0	N Z F P	413	417	403	163250					
City Realities, 10c	48	50	48	3300	N Z I G	445	445	445	1250					
Clyde Group	115	115	115	3000	NZ I 10% conv pr	290	290	290	100					
12% conv pr	115	115	115	3000	N Z Light Leathers	35	35	35	1900					
Collingwood, 50c	55	57	52	17400	N Z Motor Bodies	85	85	85	1100					
13% conv pr	50	50	50	18300	N Z M C	198	200	197	19400					
Col Motor	325	325	310	2400	N Z News	245	245	236	9400					
Colver Watson	125	130	125	3300	N Z Patrol, 50c	760	780	750	1350					
Comcalco, 50c	270	270	270	700	N Z Refining	156	157	156	13300					
Command	175	175	175	4900	NZSB	95	95	95	33500					
Consteel, 50c	187	187	187	6400	N Z Steel	225	225	222	82300					
conv pr	200	200	200	1500	N Z United	600	600	600	7800					
Con Minerals, 4c	16	23	18	143340	Nuhaka	220	220	220	7500					
Cook's Wine	140	140	138	84100	Oaklea, 50c	102	102	95	117000					
Cook-Wright	280	280	280	2000	12.5% conv pr	75	75	75	17900					
12% conv pr	225	225	225	11850	'B' 13% conv pr	78	78	78	3800					
16.25% conv pr	218	225	212	14700	15% con notes	120	120	115	83100					
Brown Consolidated	200	200	200	5800	Optical	48	48	48	500					
1% conv pr	200	200	200	1500	Otago Press & Prod	170	170	160	5600					
C S R	800	1025	800	800	Pavros Holdings	240	240	210	1300					
Dalgity (NZ)	290	295	280	29100	P D L Hold, 50c	110	110	110	0					
Dalhoff & King, 50c	85	85	80	3100	Penn Invest	222	222	220	22600					
Deasnas	220	220	220	9300	Phillips & Impey, 50c	222	222	215	65800					
D I C	186	170	165	300	Printing & Packaging	180	180	180	3000					
12% conv pr	186	170	165	300	11.5% conv pr	475	475	470	11700					
Dingwall & Paulger	360	360	353	2800	12% conv pr	925	925	925	0					
D Mol Wallace, 50c	102	102	102	3900	Prop Securities, 50c	230	245	230	28200					
12% conv nts	80	83	75	1300	Prod Builders, 50c	115	115	115	0					
11% nts '82	105	105	105	2500	Quill Humphries, 50c	105	105	105	0					
Dorn Brew, 50c	140	143	130	120300	12% conv pr	105	105	105	800					
5% pref	80	80	80	0	Radio Avon, 25c	115	115	115	1000					
11% conv pr	84	84	84	1500	Radio Otago	95	95	95	1000					
Donaghy's	300	300	300	4800	Regin	170	170	170	1000					
12% conv pr	340	340	340	0	R & W Halliday	101	101	81	44800					
D R G, 50c	115	115	115	8200	Reid Farmers	345	345	330	3600					
Dunlop (NZ)	405	405	400	3000	Repsol (NZ), 50c	90	90	90	8000					
4.5% pr	65	65	65	0	Revestar	320	320	320	2000					
Ebbott	127	127	127	8200	Rex Consol	300	320	300	2000					
Ebsco, 50c	355	355	350	2600	15% conv pr	185	185	182	1300					
E Lichtenstein, 50c	170	170	1											

Discounting continues, despite MOT's 'no comment'

From Page 1

other than at the levels approved by the Secretary for Transport.

"Government has a responsibility under its various international agreements and arrangements to ensure fair and equal opportunity of competition," she said.

While she couldn't comment on this particular case, "we are not sitting inactive and just watching," she said.

Lythe said she expected the Airline Steering Committee to convene soon to discuss discounting and advertising of illegal fares.

The Steering Committee, set up to advise the ministry, includes representatives from other airlines, but is dominated by Air New Zealand.

Budget Travel's shop window openly displays ads for dis-

counted fares and promotes Freddy Laker's Skytrain.

The Ministry of Transport has actively pursued travel agents advertising discounted fares on airlines other than Air New Zealand and has been busy trying to prevent New Zealanders flying cheaply with Laker.

Budget Travel and Club International support the state airline by offering discounted rates which their competitors find hard to match while remaining within the spirit of the law.

Budget Travel's manager, Rob Earles, assured NBR that the sale of \$2123.50 of Air New Zealand tickets with the Ministry of Transport approved face value of \$3035 was strictly legal.

"I've asked the MOT if it's legal. They gave me a non-committal answer so I can only

assume it's not illegal," he said. Earles' explanation of how it was done changed as NBR's investigations went deeper into the complex business of airfare discounting.

First, he said he remitted the full face value shown on the ticket to the company issuing the ticket (in this case, Putaruru United Travel), minus his 9 per cent commission.

Then Budget Travel billed Club International for the difference between the value shown on the ticket and the price paid.

Club International then billed the ticketing agent for the difference, putting it down as promotional and advertising support, he said.

NBR checked with the president of Club International, Riddiford, who said: "I wouldn't have my name con-

nected with anything illegal." "The correct fare is collected from Budget Travel," he said. NBR pointed out that Budget Travel collected \$911.50 less than the approved fare from this traveller.

"I don't know anything about that," said Riddiford. Riddiford said the club got its money from travel wholesalers within the United Group. Financial matters were handled by Earles, he said.

Companies Office records show Earles as the secretary/accountant of Club International. Other club officers include John Gow of Broadbank, Geoffrey Phillips, a London company director, and two Wellington nurses.

Putaruru United Travel manager Robin Davis said her company was an IATA agent and did the ticketing for Budget Travel at no charge.

"We are just a small agency. We have high turnover figures because we write tickets for Auckland agencies," she said. Davis said her agency neither received money from Budget Travel, nor paid anything to Club International.

"It's best you talk to Rob Earles," she said. Putaruru United Travel is owned by Auckland's Gulliver's Travel, but is also a member of the United Travel Services group of travel agencies.

United, with 110 agencies, is New Zealand's biggest group, and together with Atlantic and Pacific and Air New Zealand Associated Companies, owns Gitaaway Holidays Ltd. Gitaaway agents are paid over-riders (commissions on top of the approved 9 per cent commission) for steering clients towards Air New Zealand and British Airways.

Barry Fenton, kingpin of United, is known in the travel industry as "Barry the banker" and is said to be the only man able to deal direct with Air New Zealand.

Fenton said Putaruru United, while a United franchisee, was owned by a competitor, Gullivers Travel, which sold tickets under the name "dollar stretchers".

Fenton said United had no connections with Budget Travel or Club International and paid no reimbursement to either organisation.

Fenton said United was paying agents incentives to sell its products and received support from Air New Zealand in the form of promotional funds.

Air New Zealand marketing manager, Norm Searle, said he knew nothing about the discounted tickets now in Ministry of Transport hands.

"Under the Act the travel organiser has some responsibility. But that isn't for me to police," he said. "I really think it would be better if you spoke to Barry Fenton," he said.

Is Air New Zealand paying United Travel agents the difference between the face value of Air New Zealand tickets and the price paid? NBR asked.

"We file the tariff and we stick to the tariff," Searle said.

But when the media make the wider public aware they can buy an Air New Zealand ticket at a third discount, won't that put an end to the few sophisticated passengers being subsidised by full-fare-paying passengers, and won't that affect Air New Zealand's passenger mix and profitability?

"Of course it will," Searle said. "The only way you can have any incentive fares is to have your first class and economy fares giving you the yield."

"Anything of this nature is dilution and the airlines can't afford it. There has been a meeting in Geneva within the

last fortnight to get the yield up and get rid of anything which proliferates the yield."

"That's what we're working towards. It's a worldwide situation."

"Any of those travel agents advertising something which isn't a filed tariff are in breach of the regulations," Searle said.

But they are never prosecuted, NBR pointed out. "That's today," Searle said. Several travel agents have pointed out that if Air New Zealand or other carriers don't want them to sell discounted fares, "why do they offer them to us to sell?"

Budget Travel's Earles, in a later interview with NBR, said he didn't actually pay Putaruru United, but its parent company, Gullivers Travel.

Where did Club International get its money to pay a difference between the full fare shown on the ticket and the amount actually paid?

"You're getting into an area where I'm afraid I'm going to have to stonewall you," he said.

"I would say the club got money direct from Air New Zealand. They would be stupid if they did that, wouldn't they? You've got to go back to the ticket consolidators."

"The agents in trouble these days are those not involving a middle man — a consolidator," Earles said.

Pam Donnelly, of Gullivers Travel, said she was unable to comment on the matter. NBR would have to talk to the manager, Andrew Bagnall.

Bagnall was unavailable for comment. (Repeated attempts were made to contact him.)

Budget Travel is not the only Auckland agency selling discounted Air New Zealand tickets.

Meanwhile, travel agents who stick to the spirit and letter of the law are losing business.

CIA Travel's manager, Ian Brown, said his company wouldn't discount — and he was losing business to the discounters.

AA Auckland Travel Services said it was losing out in the London market because discounters were undercutting its prices.

Continental Airline's manager Bill Clague said "Continental has never paid over-riding commissions to any retail travel agent in New Zealand and has never discounted tickets to any travel organisation."

Clague offered to sign a sworn affidavit to that effect. When Continental first entered this market, it tried to offer cheap airfares on a straight-across-the-counter basis to all comers. Continental was knocked back by the Ministry of Transport.

Following disclosure of fare discounting by NBR and TVNZ Eyewitness, the Link and other discounters have enjoyed a huge rush of fresh inquiries.

Outside aid for MPs

by Richard Fletcher

PARLIAMENT's watchdog Public Expenditure Committee has taken on a researcher — a retired business executive — to help its probe into Air New Zealand's finances.

The committee has brought in Mark Hinchliff, former general manager of W and R Fletcher and chairman of the Fishing Industry Board.

The need for an extra sleuth

stems from continuing public controversy over the airline's operations and the committee's desire to make a proper and thorough job of the investigation.

This is not the first time the committee has appointed outsiders to help. Last year, forestry review brought in an assistant through the Planning Council, but a direct appointment is believed to be unprecedented.

July 13, 1981

July 13, 1981

Futures market prospers in wake of wool price lift

AN "optimistic" Government wool support price for the coming wool season threw the close of the 1981 wool season into a panic — and stirred up a flourishing futures market.

Prices were forecast to remain around existing levels when the new season opened in August . . . but the June 30 Christchurch sale, the last of the 1980-81 season, was also the high point, with crossbred wools gaining ground as the sale progressed.

Underlining the strength of the market was the AWASP (adjusted weighted average price for the sale) of 271.2c a kg.

"The sale was up 2 per cent overall which was partly expected with the recent squeeze," said Christchurch woolbuyer Peter Marshall. "So the increase was not that surprising."

But a day later, July 1, the Government set its support price for 1981-82 season at an optimistic 320c a kg, a price high enough to spark renewed speculation about a possible devaluation of the New Zealand dollar in the Budget or before the start of the new season.

"The Government did surprise us by setting the new minimum price 49 cents above the Christchurch sale close," said Marshall. His soundings of the market here and abroad since indicated serious doubt that the market would reach 320c a kg.

"About 271 to 280 cents would be very realistic," he suggested. "Unless something dramatic emerges there seems little reason for wool to reach 320 cents."

Agriculture Minister Duncan McIntyre announced the new minimum price — indicating a level 28 per cent above the average for the season just ended — at the same time as the New Zealand Institute of Economic Research predicted in its latest *Quarterly Review* that coming season wool prices would rise by 30 per cent to

325 cents, based on an expected improvement in world demand. The institute expects a 22.5 per cent volume lift in wool exports next season, coinciding with a production dip.

Good news for the national economy in its suggestion of a 59 per cent rise in wool exports to June 1982 to \$1360 million. At \$1400 million, wool exports would be three times the level three years ago, said Federated Farmers meat and wool section leader B D Chamberlain.

The wool futures brokers are curious, however. While Western economies may well be on an upswing, the current problem posed by the strength of the American dollar persists.

On the eve of the Budget, there seemed three possible scenarios. Expectations could be fulfilled in the future and wool could reach 320 cents; there could have been a devaluation in the Budget or there could be a higher shift in the monthly float of the dollar by the Reserve Bank.

The contingent risks in setting too high a minimum price could be reduced by a devaluation, which would enable foreign buyers to adjust accordingly. In the event of an over-estimate, a higher level of monthly devaluation would also reduce the amount the Government would have to pay out to support 320c a kg. Neither might be necessary if the market swings higher.

But the prospect of a devaluation prompted traders to turn speculators in wool futures in the last two weeks. Farmers turned from their normal hedging of wool clip interest to run the risks of a \$400 a contract plunge and city interest ran high.

Marshall described the July 1-2 change in the January 1982 contract as "dramatic", with a leap to 414 cents. "When the call opened after the price support announcement there was panic buying."

"The trade moved in when prices steadied and became

sellers, taking the profits and opening new contracts."

The volatility remained and interest was keen up until the Budget as speculators tried to pre-empt a possible currency change, aware that a Budget speech without a devaluation announcement probably meant a period of softening futures prices.

But for investors who had entered the market only a month beforehand there would have been plenty of excitement in futures. On June 4 the January 1982 contract was trading at 390-393; a month later on July 4 it was closing at 414 cents for a 24c a kg gain, or \$475 profit, after allowing for the commission.

Futures trading in the New Zealand crossbred greasy wool No. 2 contract has already been an outstanding success in only its first year.

Eight affiliate firms of the London Wool Terminal Market Association are now active in this country, operating a daily call in the late afternoon and monitoring the London futures trading overnight.

The ranking of New Zealand as a wool producer undoubtedly ensured the future of a "hedging" service for farmers and woolbuyers alike, but it would not have flourished without the speculative aspect introduced by the private investor.

Wool futures trades exceeded 10,000 in the first year and values represented topped a billion dollars. Enough private investors and wool trade interests have accepted wool futures to ensure the survival of the market and the level of activity is nearing the point where an actual national

trading floor may soon be contemplated.

Futures trading is the buying and selling of contracts; an agreement to buy or sell a certain amount of a commodity contract at a fixed price, at a specific date in the future.

In the case of the New Zealand crossbred wool contract it is an agreement to exchange a contract for 2500kg of clean crossbred wool (21 bales a contract).

Prices are quoted for a specific type (35F2D) on a clean weight basis up to 19 months ahead, on specific months. Very few futures contracts actually reach maturity (that is, delivery). Traders can rid themselves of their obligation by entering into an opposite contract, thus closing out the position without actual delivery.

Open positions have con-

tinued to climb this year and topped 2200 lots by June.

Traders have had two major factors to monitor. Marshall points to a need to plot currency shifts as well as physical wool auction prices.

The uncertainty of the currency scene had injected uncertainty into wool sales and thus on into futures and it became clear that markets were open to substantial movement.

As the American dollar strengthened, consistent buyers began to curtail purchases. New Zealand's managed float of about 0.6 per cent a month has also meant that over a year we have revalued against significant European currencies by about 12 to 15 per cent, a dampening factor for physical prices.

Into June the two factors began to have strong impact.

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Analysing annual accounts: CCL

by Klaus Sorensen

COMPUTER Consultants Ltd shareholders have a fair bit to cope with in the company's first annual report since listing at the end of last year.

Apart from the fact that the 48-page report would do NZ Forest Products proud, they will have to come to terms with an unusually presented set of accounts, a high gearing and nine pages of notes to those accounts.

But on the plus side the company's level of disclosure is generally good, the written reviews informative and frank, and CCL's prospects for the future look good.

The basic problem is that the market has never really had to size up a computer company before.

A company like CCL has less need for investment in fixed

assets, because its main emphasis is on the production and implementation of computer software (programs) and its main "assets" are the skills of its employees.

The company does, of course, market a large range of equipment but in that respect it is not very different from most other franchise representatives. Where it differs is that CCL concentrates on designing and implementing software and also servicing existing installations — and that's a skill-intensive business.

But managing director Ken Fraser early on in his report, says "for the first time our accounts will be subject to close scrutiny by financial analysts and judged according to traditional standards. They will no doubt decide that some of our ratios fall short of the desirable levels."

"While the cash issue since balance data will improve the situation somewhat, I would also suggest the following factors should be taken into account."

He explains that as one of the largest computer software groups in New Zealand CCL has, over 10 years, developed numerous computer programs and these have not been capitalised.

The value of the management team and the fact the company launched directly into the computer age — rather than having "historical ties and commitment to the mechanical age" — are also advanced by Fraser as reasons for the low ratios.

Fraser's fourth reason is that "apart from computer programs there are computer-based products, licences to publish, expert services, and

knowledge which are extremely valuable and yet do not show in the assets column of the balance sheet."

He explains that a fraction of their value shows up as goodwill because in acquiring Fourth Estate Holdings, the traffic signals group Tesso and the Australian company, CID, some of the intangible assets were taken into account in arriving at the purchase.

And this is likely to be the second major reservation the analysts and larger investors are going to have.

The company has a very high proportion of goodwill in relation to its total assets. Using conservative accounting practice goodwill would be deducted from total assets in determining the debt equity ratio — so CCL's finances are not as strong (in the traditional

sense) as many might prefer them to be.

As reported, the company increased its net profit from \$259,000 to \$620,000, and it is evident from both the balance sheet (which shows a big increase in borrowings) and the profit and loss account, that the company took the opportunity this year really to gear itself up.

Revenue was up 39 per cent from \$11.4 million to \$15.9 million, but expenses were not far behind, rising 37 per cent from \$10.7 million to \$14.6 million.

Included in the expenses rise was a 93 per cent jump in "other interest" charges from \$352,000 to \$681,000 and a five-fold rise in equipment leasing from \$115,000 to \$574,000.

Building rentals were up 26 per cent from \$382,000 to \$483,000 and the two major items of expense were salaries and wages of \$4.1 million (up 27.6 per cent from \$3.5 million) and "other operating costs", up from \$5.1 million to \$7.3 million — a 35 per cent rise.

Neither the other interest charges or other operating costs are detailed in the notes.

The resulting operating profit was up from \$777,000 to \$1.3 million. Including a \$900,000 dividend from an investment in a public company, management profit sharing commissions (up from \$120,000 to \$152,000) and an increase in the tax provision from \$111,000 to \$51,000, the net profit was \$620,000.

Rather than the traditional two-page balance sheet — with liabilities on one side and assets on the other — CCL has presented its balance sheet in a combined form.

It shows current assets up from \$3.6 million to \$6.1 million, fixed assets up from \$3.1 million to \$4.1 million, goodwill of \$1 million (\$400,000 previously) and a total assets figure of \$11.9 million (\$7.4 million in 1980).

The company's current assets comprise debtors of \$1.5 million (\$2.2 million) and stock of \$2.6 million (\$1.3 million).

Current liabilities are up from \$3.1 million to \$6.7 million, with total liabilities of \$9.1 million (\$5.1 million).

Net assets are \$2.9 million, compared with \$2.2 million, giving a proprietorship ratio of 24 per cent. The paid capital is \$1 million but this has been increased by a 1-for-3 cash issue following the balance date. This will result in an improvement in the proprietorship ratio (to 34 per cent) and a healthy \$867,000 contribution to the share premium reserve — sufficient to enable tax-free dividends for 2.25 years.

Current liabilities comprise a bank overdraft of \$939,000 (\$39,000) trade creditors of \$1.8 million (\$925,000) bills

payable \$1.7 million (\$1 million), liabilities to finance companies (under amounts due by subsidiaries) of \$1.4 million, and term and other liabilities of just over \$1 million.

But the company's disclosure does fall a little short in places: there are no divisional turnover or profit breakdowns — though the proportion of Australian New Zealand revenue is provided on a smart colour graph — and there is no reference to the company's not inconsiderable investment in the Wellington firm, British Office Supplies Ltd.

The CBA Finance list of 20 shareholders in public companies shows CCL to have a 10 per cent shareholding in the (162,000 shares) as at June 20, 1981.

While there is no mention of this shareholding anywhere in the report, the assets in its balance sheet include investments of \$124,000 for shares in companies at or above the profit and loss account lists \$900,000 worth of dividend income "from investments in public companies".

No shareholder must assume the BOS shares were held at balance date — and would, therefore, be entitled to at what the director's intention are with this holding.

The report gives a breakdown of the effect of the acquisition of the subsidiary (Fourth Estate, Tesso and CID) which shows that of the total purchase price for the three of \$1.7 million, over a million consisted of goodwill.

The consideration was made up of \$800,000 worth of shares issued at par, \$111,000 for shares issued at a premium, cash of \$685,000 and cash to be paid at \$578,000.

There is also a list of directors' shareholdings (they hold 60 per cent of the shares) and a series of detailed articles on the various subsidiaries.

But what may grab investors' attentions most is the reference by Fraser to the company having grown so much locally "we are starting to hit our head on the ceiling".

He explains that the answer lies in Australian diversification through the company set up three years ago, and the Computer Installation Development Co Ltd which was acquired earlier this year.

He predicts that by the mid-1980s the Australian subsidiary will equal the size of the New Zealand activities, and says the company has entered the current year with all subsidiaries forecasting a profitable trading year, "for the first time".

And for the ordinary investor such growth indications may be just as important as the analyst's attitude to the company's high gearing and its comparative financial youth.

NZWS deal stalls Lion plan to shed liquor interests

by Warren Berryman

LION Breweries' long-standing corporate policy to diversify out of the liquor business has been turned around by a move from Auckland's Campbell and Ehrenfeld Ltd.

Under the terms of a deed signed in 1971, Lion will have to buy the 50 per cent shareholding it does not already own in New Zealand Wine and Spirits Ltd from Campbell and Ehrenfeld.

Lion has been selling its pubs in an attempt to diversify — particularly into the food business.

But 100 per cent ownership of NZWS will not only strip Lion of spare cash to diversify, but make it sole owner of the country's biggest liquor empire.

NZWS has a turnover well over \$100 million. It owns 30 outlets in its own right and has a one-third interest in Tasman Wines and Spirits (NZ) Ltd's 18 outlets.

NZWS controls about 33 per cent of the wholesale liquor trade and about 15 per cent of the retail trade.

Tasman Wines and Spirits, which bought out Wrightson's 18 outlets late last year, would have about 6 per cent of the liquor market.

NZWS was set up in 1971 by Campbell and Ehrenfeld and Lion. C and E included its 26 Auckland pubs in the deal and Lion its liquor outlets.

C and E got out of the hotel business and Lion out of the wine and spirits business and both companies agreed not to compete with each other in their respective fields.

Under the terms of this 1971 agreement C and E could ask Lion to buy out the remaining 50 per cent shareholding it did not already own at any time. It exercised the option to sell on June 9.

Lion must buy the shares at "a fair value price". If no price is agreed on, the matter will go to arbitration.

Neither Lion nor C and E will indicate what a half-share in NZWS is worth.

But last year the company recorded a turnover between \$100 and \$150 million and a pre-tax profit of about \$6.6 million.

Since NZWS was founded, Lion has changed its direction, shedding pubs as fast as it was once buying them up. Lion sees its future in food, not liquor.

NZWS invested \$1 million in a plant to make the Jamaican coffee liqueur, Tia Maria, under licence. Hooked into Tia Maria's marketing and promotional network, NZWS is exporting about \$6 million worth of Tia Maria a year.

NZWS also compounds other spirit-based liqueurs such as Pernod, Southern Mist, Mandarin Napoleon, as well as Gilbey's, Beefeaters, and Schenley gins, and Smirnoff and Samovar vodkas.

Last year NZWS joined forces with Australia's Tooheys — Castlemaine and International Distillers and Vintners (part of Britain's Grand Metropolitan Ltd) to form Tasman Wines and Spirits.

Tasman Wines and Spirits bought out the 18 Wrightson's liquor outlets from the Challenge Corporation.

Tooheys-Castlemaine is considering setting up an Australia-wide distribution network into which its New Zealand partner might tap.

IDV compounds its gin and vodka in Australia, where the operation has proven unprofitable.

Aided by this country's export incentives, NZWS's white spirit exports could take over from IDV's Australian-made products and be sold through Tooheys-Castlemaine outlets.

White Spirit is made by the New Zealand Dairy Co-operative Ltd from waste whey in the same IDV process used to make the white spirit for the

distributor.

The NZ Dairy Co-op can only sell its white spirit as industrial alcohol.

If the rules were changed, NZWS would be in a strong position to buy this cheap alcohol, compound it to make liquors, and export it at competitive prices.

NZWS has talked with IDV about making some of its products here with grain alcohol, but perhaps later from whey-based alcohol.

IDV owns Britain's Express Dairies, and is particularly interested in tying itself into the dairying expertise in the manufacture of cream-based liqueurs.

The face of the country's liquor distribution system is changing rapidly. Challenge Corporation sold its outlets to Tasman, and the PSIS sold its four big outlets to Wilson Neill.

After many years of nearly uniform prices, and little price competition, the industry is now competing fiercely for custom with discounted prices.

Both Lion and NZWS see little change in the marketplace arising from the Lion takeover of NZWS. NZWS has always been seen as Lion's wine and spirits arm.

Lion managing-director John Macfarlane said both his com-



John Macfarlane... full board support.

pany and C and E had equal representation on the NZWS board. All NZWS projects had the full support of the board and present plans would be carried out he said.

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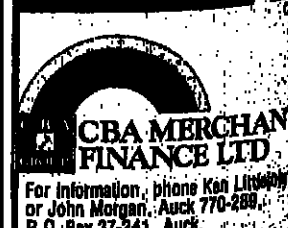
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Skybus rapped for advertising before approval

by Warren Berryman

SKYBUS, the fledgling airline with more false starts than takeoffs, has been rapped by the Ministry of Transport for advertising "proposed" international air fares before receiving Government approval to fly.

A Ministry of Transport spokesman told *NBR* Skybus had not at that stage applied to fly the routes mentioned in the advertisement.

Nor did it have planes to fly these routes. Skybus was then still negotiating with Polynesian Airlines and Evergreen International to charter planes.

A full page advertisement appeared in *The Hunt News* on June 16 urging the public to buy \$180 lifetime founder memberships in the Aqua Avia Society (Skybus) because the founder membership list was soon to be closed.

The ad listed domestic fares

at rates 30 per cent below Air New Zealand's and international fares to Hong Kong, Samoa, North America, Australia and Britain — running about half the normal economy fares on these routes.

The "editorial" message accompanying the ad asked if readers believed the Government "will in the future interfere with Skybus to protect the State-owned airline?" Skybus claimed in its answer that the Aqua Avia Society was "sound in law and it is sound in principle."

The Ministry of Transport took Skybus to task for advertising a list of tariffs without its blessing.

Skybus's new public relations and advertising man, Derek Little, said the advertisement was a mistake that would not be repeated.

"We didn't intend to publish a formal fare structure but only to indicate the sort of comparative savings available to Aqua Avia members," Little said.

He acknowledged that Skybus had "been rapped over the knuckles by the MOT" and the ads had been stopped.

Skybus has been negotiating with Polynesian Airlines to charter a 737 for a flight to Brisbane and is investigating the possibility of a semi-charter deal with Polynesian to fly

members to Tonga at discounted fares.

Skybus fares on the Brisbane and Tonga flights depend on the price charged by Polynesian.

The civil servant strike in Samoa, where Polynesian has its head office, slowed negotiations.

The Viscount chartered from British Air Ferries is expected to arrive in New Zealand decked out in full Skybus livery late next month to start flying domestic routes in September, Little said.

He said domestic fares would be set 30 per cent below Air New Zealand's.

Skybus has taken on Jack Carr, a former civil aviation division man, as a consultant on retention.

Skybus chairman Sir Reginald Barnwell, one of Polynesian Airlines' founders, initiated Skybus's charter negotiations with Polynesian. These negotiations have since been carried on by Gibson.

Polynesian Airline sources say their company would welcome a charter arrangement because its planes are not fully utilised. But, they point out, a sticky point in negotiations might be reached if Skybus's discounted fares threaten to undercut Polynesian's fares by too great a margin.

A new company called Aviation Consultants and Management Services, has been engaged on a year's contract to handle ground handling and reservations.

The consultancy is made up of Ken Gibson, a former Polynesian Airlines executive and ex-Air New Zealand employee with 27 years aviation experience, Bill Kirk, and former Air New Zealand pilot, Ann Carmichael, also formerly with both Air New Zealand and Polynesian Airlines for eight years, and a fourth "sleeping partner" whom Gibson declined to name.

Jetset in on discounting

by Gordon McLauchlan

THE travel industry is apprehensive at the entry of Australia's biggest travel business entrepreneur, Izzie Leibler of Melbourne-based Jetset Tours Pty.

Jetset has formed a joint travel venture with the Nathans Group's wholesale travel section.

With nearly 300 outlets — the biggest in Australia — Jetset has been strongly associated across the Tasman with Air New Zealand. The relationship has been heavily involved in discounting.

A few months ago, when Jetset was a small operation here headed by former Air New Zealand and UTA staffer Ian Rumsey, an Air New Zealand spokesman assured the locals there would be no special deals with the company here.

But Jetset now has a substantial interest here as partner to Nathans. It may pressure Air New Zealand for part of the action here — or threaten to lose some interest in the airline's business in Australia.

Now that Air New Zealand has regained access to the promotional fares business out of Australia to North America, that could be a heavy business lever in favour of Jetset.

The possibility of losing some local business to Jetset will give Air New Zealand tour associates here cause for worry — notably Atlantic and Pacific and the United Travel consortium.

Pan Am has been traditionally associated with Nathans Travel in New Zealand. It may be forced to find new associates.

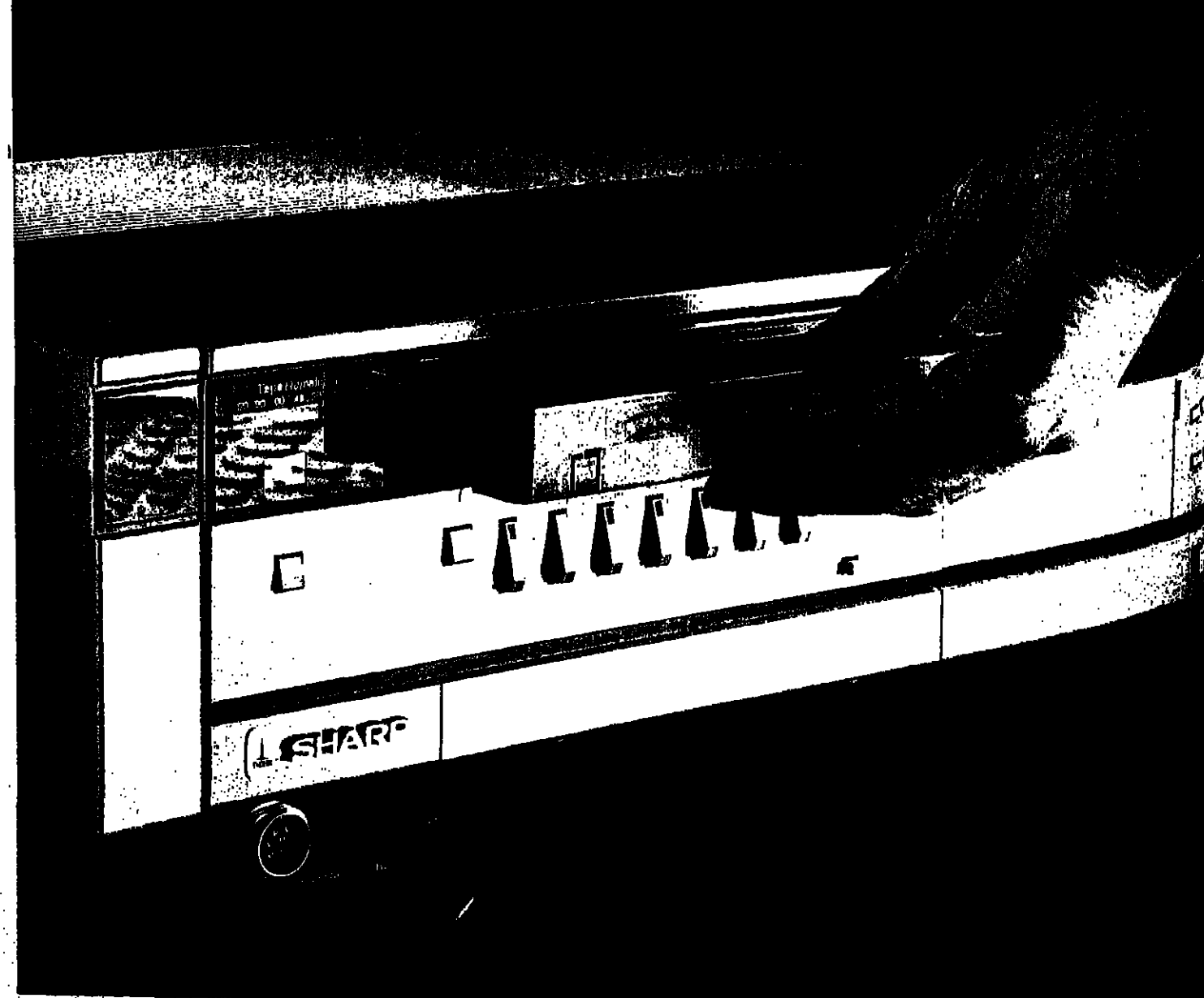
Jetset was invited into the country because Nathans's travel organisation lost more than \$500,000 in the 1980/81 financial year. It has had some management problems since losing the services of experienced and shrewd travel veterans Lloyd Tremaine and Les Holt.

The company has shed staff, including some off the top, then went shopping in Australia for a partner.

Leibler is said to have leapt at the chance to expand his empire here without having to start from the bottom.

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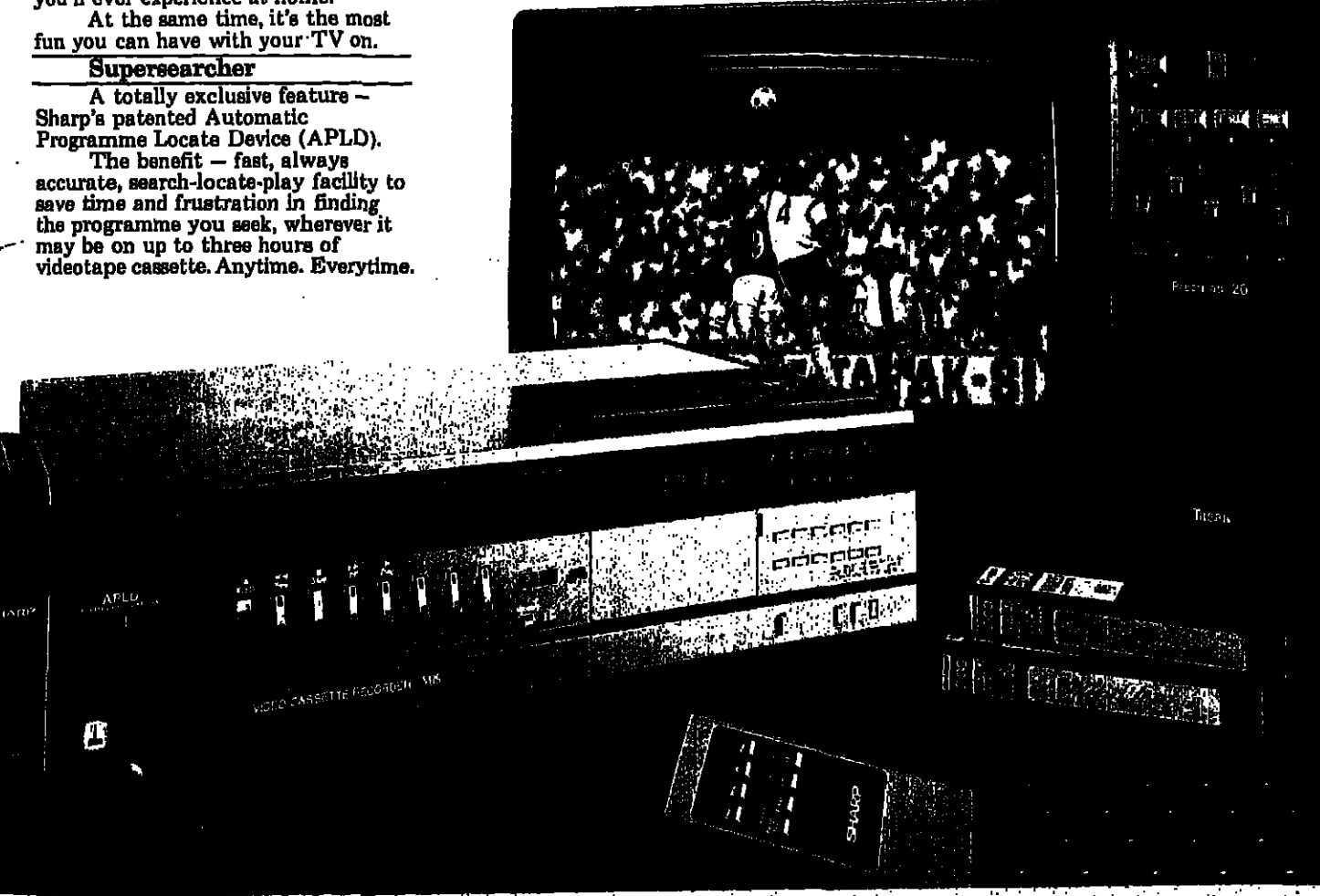
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Support for group research

"FOCUS group interviews" represent a research technique where a group of consumers are encouraged by an interviewer or moderator to discuss quite freely a topic related to the group's experience.

Most frequently the discussion centres on a product range or on household activities which have a relation to buying patterns. Usually the whole discussion is recorded and carefully analysed.

The darling of researchers and marketers when first introduced, it has more lately become a hotly debated issue, possibly, as some claim, because it can become an abused procedure.

Newly appointed Massey

professor of marketing, Steve Bridges, is one who still champions the use of the focus group interviews, particularly when employed to assist the marketing thinking of small companies who find full scale research beyond their economic means.

"It can present great value for a reasonable outlay," says Bridges. "The limitations imposed by not doing it can outweigh the cost of doing it."

Bridges, speaking at the recent annual conference of the Market Research Society, pointed out that all marketing activity must be preceded by an exploration of the underlying motivations for buying the product.

Purchases are not made merely for the intrinsic value of the product itself. There are emotional and social attributes,

such as those attaching to the purchase of an exclusive car, which have to be taken into consideration.

So it is necessary to understand the consumer's wants, his frustrations, his satisfactions and anxieties. The group interview gives an opportunity to probe the consumer's mind when it is focussed on the particular product or service topic. Insight into consumer's needs will help guide future marketing conduct.

Bridges identified two other areas where the group interview technique is of value to small businesses.

"Group discussions are of particular use when introducing or testing new products. Prototype research can be done with small groups or individuals and may often prove revealing. They are not reliable

for establishing pricing expectations or purchase intentions. "And when a product has been launched, small groups can be helpful in a post-testing exercise."

The small business in need of research may only be able to afford the relatively low cost of a focus interview. Used cautiously and wisely, it is a far better option than no research at all, said Bridges.

— Grev Wiggs

Think pictures says adman

DATA derived from research is useful to the advertising agent only if it is given meaning — and the meaning must always be related to the consumer.

This was the message that

Carlton-Carruthers du Chateau's deputy managing director, Don Donovan gave to the Market Research Society's recent annual conference.

"Pictures mean a lot more than numbers," said Donovan. "If you work with numbers every day, you can probably make the pictures from them in your mind. But if you work with pictures — as do advertising people — the sooner you can turn research's numbers into real pictures, the quicker you can make the data meaningful."

The danger to users of visual symbols is that they can mean something different to each viewer and sometimes reaction to those images can be diametrically opposite with two different individuals.

Donovan saw the process as data collected by the research house being turned into

description by the research house in collaboration with the agency and given meaning in consumer terms by the agency.

Because it is the advertising agency's function to communicate with the consumer in order to produce action — usually sales — it must be able to identify the needs and wants, attitudes and behaviour of the consumer.

"And we need to try to avoid the de-humanising effect of the word 'consumer'. It's a convenient word but really it needs flesh and blood, it needs to be a person — a human being."

"The monumental frustration of the advertising agent is that he wants to communicate with an individual but he can't. The whole idea of advertising is that it is a cheap way to get to consumers (whereas the most efficient way is by face-to-face selling, which is prohibitively expensive)."

Donovan suggests that market segmentation research provides a useful method of classing consumers into recognisable, describable groups.

"All we can really do is try to isolate a commercially viable group of people out of the universe who have sufficient similarities for our advertising to be meaningful to them."

Within the larger group of users of the product there are a number of smaller groups who share certain attributes. These "affinity" groups can be identified as different segments of the same market.

In a study of the block chocolate market carried out for the agency, market groups of users were identified by such descriptive terms as "male munchers", "indulgent chocolate lovers" and "energy nibblers".

In another study into tea user groups, some classification terms were "break seeking housewives", "old fashioned tea lovers" and "hospitable drinkers".

The naming of the group immediately touched off pictures in the minds of the creative people," said Donovan.

"These segmentation studies have been major components in our ability to describe the targets and to appeal to them with meaning."

"To my mind this sort of research is the real consumer research and is a big step ahead of much head-count research which comes from media studies, household surveys and in-store audits." — Grev Wiggs



"Up to your old tricks again, Arnold Basely! Didn't think I'd fall for your 'Business trip up North' tale, did you?"

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The media

Consumer club wins listeners

ONE of the country's most unusual radio shows is making plenty of friends, and a few enemies.

Radio Pacific's *Consumer Club*, running Monday to Friday between 1 and 2pm is hacking at rip-off companies, exposing untruths in advertising and running frank, on-air opinions of new products.

One of Gordon Dryden's early aims in setting up his all-talk station was to home in on consumer affairs. After juggling

with various lunchtime formats, the station seems to have found a winner with *Consumer Club*, which may help to give the ratings a boost when the just-completed McNair survey results are published.

Pacific trailed behind 12B, Hauraki and Radio 1 in the last ratings survey. But the station hit a public nerve when it invited listeners to join its consumer club. After six weeks on air there are more than 500 members, and they're joining at the rate of 100 a week, says

journalist Graeme Colman who co-hosts the show with home economist Brenda Hopkins.

Club members get the chance

to join test panels (toothbrushes, electric can openers, antiskid, a backsaving clothesline aid and micro-wave ovens have come under scrutiny) and the station is considering publishing a newsletter detailing the results of its investigations.

"We haven't yet decided whether it will be for public consumption or just for club members," said Colman.

Colman and Hopkins have had good support from the Consumers' Institute, said Colman. "We see each other as complementary rather than competitive."

Companies under scrutiny

were usually happy to co-operate, and very few had refused to come on air to answer questions, he said. Radio Pacific has lost one advertising account as a result of consumer inquiries, but gained five more new accounts.

"The honest companies are not afraid to come on air to defend their products," said Colman. "Those who have a good policy on dealing with consumers see it as a good avenue for public relations."

But he is still trying to track down the principal of a house-cladding company, about whom the station has received 13 complaints.

"People have spent up to \$4000 having unsatisfactory work done on their houses and can't get repairs done. The product concerned has apparently not been through weather testing, and does not have Home-Insurance approval."

He has phoned Sweden and England investigating a hair restorer (and found that the claims being made for the product here are not made by the English manufacturer), found out that a man selling cheap cigarettes was an inmate of Wanganui Prison using Justice Department envelopes and franking machine to conduct his mail-order campaign, and has had a go at an Auckland bus driver selling information to people for \$4 on how to reduce their house-keeping bills.

The "advice" included tips on how to cook meat, water the milk and open a Christmas club bank account. Then there was the supplier of chicken to fast-food outlets who was soaking foul-smelling chicken in vinegar to disguise the smell. The Health Department is investigating the case.

Dryden describes the consumer club as one of the best things that's happened to Radio Pacific. The station is hoping that other programme changes will also boost the



Gordon Dryden... found his ratings which were down last

per cent in the last McNair survey, and 11 per cent in the most recent MCNZ survey.

Cicely Sinclair, who left months ago, is back on air cheerfully abusing callers in tandem with Tim Bickel, on early evening sport talkback, and the show is extended to a three-hour slot (from 1pm to 7pm) in an attempt to drag in more time.

audience. Public comment on David Hartnell's absence, that show had been so favourable, said station manager Mike Jack.

— Lindsey Dawson



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Retailing

Corner dairy on way out, wholesaling expert claims

by Lindsey Dawson

THAT bastion of the Kiwi way of life, the small corner dairy where you can amble in to pick up your fags, a bottle of milk and the Sunday papers, must adapt to change or die.

That was the strong message from the general manager of Associated Wholesalers, Peter Brown, at last week's retailers' convention in Auckland.

Brown told *NBR* later that his remarks were aimed at helping, and not criticising, those retailers who were currently running this type of business.

"The pressures of a more sophisticated society, modern methods, and competition dictate that food retailers must meet the changing climate or face certain extinction. As I told the convention, there is a tremendous future for the small independent retailer who reacts to the consumer's requirements and the environment of the 1980s."

There had been a decline of about 30 per cent in the number of retail food outlets in New Zealand in the past 20 years, he said. "This obviously means consumer demand for larger, more efficient and more attractive retail food outlets."

He said that there were still people who believed that the earth was flat, "and I have no doubt that there will be those believing in the future of the corner dairy until the bitter end. A great number of retailers have already reacted to the changing social and consumer environment and they will reap the rewards they deserve."

But these changes are already under way, according to Brown. "The rate of change in the retail food industry today is totally unprecedented," he said.

These changes were:

- The steady growth of the sophisticated one-stop supermarket;
- The discount store concept with limited stock range, low standard of presentation and low level of service — with con-

sequent cheap prices due to low overheads;

- The early stages in the development of modern convenience stores;
- The major change in the structure of the work force, with some 40 per cent of New Zealand women going out to work;
- The development of Saturday trading;
- The creation of a new social environment, where the utilisation of leisure time creates new social patterns and consumer requirements;
- Rapidly developing technology which, said Brown, "will have a dramatic effect on the food industry at all levels."

Big supermarkets have until now had a technological edge on the small food store in their ability to finance sophisticated computer systems.

But, said Brown, AWL will soon be able to provide small retailers with a "very simple and economic link into our computer to facilitate quicker and more efficient handling of orders placed on us."

Brown told *NBR* that this would happen in a few months. Retailers will be able to use portable data entry units, a small calculator-sized device used to order new stocks. The retailer can enter his orders on the unit and send the information down the phone-line to AWL's computer.

Brown would not tell *NBR* how much access to the system would cost retailers.

He told retailers at the convention that retailers had a strong contribution to make in one of three areas:

- Small neighbourhood super-

markets. "These will provide sophisticated one-stop shopping, well-merchandised presentation, friendly atmosphere and competitive prices."

● Medium-sized discount stores of 2000 or 3000 square feet, with a "keenly priced" limited range of products, neighbourhood located, but still offering consumers a more attractive level of personal service than that available from the large discounters.

● Convenience stores, which will offer a wide range of food products with a competitive but not low-price image, open at hours suiting the public.

This last group is having its problems with Sunday trading. Many small food retailers say they need to be open seven days a week. The Government, as Muldoon said at the convention, has made it clear that it has no intention of allowing shops other than dairy-mixed business to open on Sunday.

"Whether or not a business qualifies as a dairy-mixed business is a decision for the one-man Shop Trading Hours Commission," said the PM. "I understand that he has already decided on about 690 of the 2100 applications received. Of the 690 applications he has allowed all but 44."

Brown said that there were "some indications" that the Shop Trading Hours Commission may not be interpreting Parliament's legislation "in a manner which will be consistent with modern trends, and which will recognise the consumers' best interests."

"It is early days yet, and I don't want to make too much of it," Brown told *NBR* last week. "But as we told the select committee considering the legislation, we feel that the term 'dairy-mixed business' is archaic."

Associated Wholesalers is a member of the Nathan group, and so, too, is Woolworths with its classy supermarkets. The interests of the corner store proprietor, and the supermarket chain, both under the Nathan wing, seem opposed.

"Sure we're in competition. We do it openly, but we operate quite separately within the group," he said. AWL was committed to the interests of the little man. "Some people, including unionists, tend to think that the Nathan group is representative of large business interests but the survival of this company depends entirely on the goodwill and support of the independent retailer."

In his speech at the convention he cited various reasons why consumers don't always want big supermarket shopping, such as escalating fuel costs making it progressively uneconomical to make special trips to buy food; a reluctance to spend valuable time in big stores where many feel that they are exposed to the temptation of making unplanned purchases; a preference for personal service, rather than being "treated as an anonymous number passing through a checkout"; and the fact that "a good independent has the initiative and the freedom to respond more readily to the needs of his customers, and is not dependent on some head office decision taken on a totally remote basis."

Electronic retailing almost here

THE first bar-coded products allowing electronic price-scanning at supermarket check-out counters will appear from manufacturers within six months, says Matt Storey, chairman of Associated Wholesalers Ltd and of the New Zealand Product Numbering Council.

Speaking at last week's Retailers Convention and trade exhibition in Auckland, he said about 50 per cent of all dry grocery products will be bar-coded within two years.

Bar-coding, a small barred area on product packaging, is a fact of retailing life in the

United States, and the latest scanning devices, incorporating a laser-beam to "read" the code as products are passed over point-of-sale scanners, will shortly be available in New Zealand.

The system allows complete in-store computerisation, handling stock control and ordering, and giving profit and loss information as well as speeding up check-out operation.

While present-day prices put such technology out of the reach of today's small retailer, the future would be different, said Storey.

There was a massive

downward trend in the cost of electronic equipment, he said. "I am firmly of the belief that in-store computing and in-store point-of-sale equipment will be in the reach of, and fully justified, in stores down to two check-outs, within the next two or three years."

Portable data entry devices were already in New Zealand, he said. Queensland experience had shown that they gave big savings.

"Using the post, and the mail order book, you can almost guarantee a 24-hour delay in the post and a further three to five hours, depending on volumes, in your order book being used to key in your order to produce the documentation. Using the order entry device, you dial up your supplier's computer and send in your order."

"This automatically takes it into the computer and creates the data necessary to service your order. The saving is at least 24 hours and in many cases would be in excess of 48 hours."

"I believe this saving is absolutely vital to your future in these times of high money costs, and the need to develop better skills in stock management, stockturn rate and in funding utilisation," he told retailers.

Storey said he recalled that when Albert Gubay set up his 3 Guys discount food barn business in 1972/73, "the prophets of doom" were convinced that he would drive the independent out of business.

"I see little sign of that. I see a developing sign of rationalisation in the retail sector of most independents, but good independents have good businesses, provide the community with essential needs, and make responsible profits."

These people had decided which market segment they should go for, he said. "If Gubay was right, or if price was the only criteria, surely we would all be on the same bandwagon. But looking around, you have food barns, you have chains, you have limited selection stores, you have every type of facet of marketing brought to bear in our industry and each one has its own brand of customers."

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Fishing

Soviet undercutting of NZ sales confirmed

THE Fishing Industry Board's agent in Spain has confirmed that Soviet-caught fish from New Zealand waters has been undercutting our own fishermen's export efforts.

And an Auckland company says it lost a Spanish export order worth nearly \$250,000 because of the price-war.

FIB representative Cecil Pavillard has just visited New Zealand.

He confirmed reports (NBR, March 30 and April 6) that ex-

port opportunities were being lost in Spain because of Soviet marketing activities.

Pavillard's observations conflict with a Government report which asserts there is no hard evidence that Soviet-caught fish from New Zealand is undercutting our Australian export market.

That report was commissioned after allegations of Soviet undercutting on two markets — Spain and Australia.

Pavillard said many

thousands of tonnes of Soviet-caught New Zealand squid entered Spain last year via the Canary islands, where it was partially processed, to sell in mainland Spain for 67c a kilo.

He said there was no doubt that the Soviet Union was undercutting New Zealand sales.

New Zealand squid is highly regarded in Spain, and Pavillard said he could have found buyers for the squid who

would have happily paid 90 cents a kilo.

One company in Valencia alone bought 5000 tonnes of New Zealand squid from Russian sources at the lower price.

Pavillard said he was unsure whether the squid had originated from Russia's two joint ventures in New Zealand waters, or from Russian licensed fishing boats with no direct New Zealand connection.

About 15 per cent of the Russian joint venture fish is pro-

cessed in New Zealand. The rest goes straight out of the country, and its marketing is largely handled by the Russian, rather than the New Zealand, end of the operation.

In the 1980 calendar year, foreign licensed vessels caught 23,000 tonnes of squid in New Zealand waters. Local and joint-venture fishermen caught 17,000 tonnes between them, and of that only about a quarter was caught by New Zealand fishermen.



That means New Zealand fishermen catch somewhere between \$1 million and \$1.5 million worth of squid a year — not large compared with catches of some other species, but nevertheless significant.

One Auckland company claims to have lost a Spanish order for a substantial quantity of squid because of the price-war.

But the company says a Soviet marketing of New Zealand squid was not solely blame for the last-minute loss of the order.

A company spokesman told NBR that Canada is the marketing squid at low prices in Spain. "In real terms, it's Russia versus Canada," he said. "New Zealand is caught in the middle."

The Spanish order had been for 2000 tonnes of squid around \$1200 a tonne. But it was lost partly because Canadian companies made advance offers to supply squid — three or four months before their season even started.

His assessment of the Spanish market is that the Soviet Union started the price-cutting war and forced the Canadians to follow suit.

New Zealand was reluctant to follow the trend because Japan has tended to set the going rate for New Zealand squid, he said.

Our squid is regarded in Japan as second in quality only to squid caught off the east coast of Japan itself. And the Japanese will pay up to \$1.20 a kilo — well above even the best Spanish offers — as long as the squid has been properly handled.

Pavillard said the Soviet undercutting in Spain has suddenly stopped over the last few months. He said he expected New Zealand could now break into the Spanish market — although prices may not match those offered by Japan for the best-quality squid.

Pavillard said the fishing industry in Spain did not know why the Russians had suddenly withdrawn — but fish sources here suggest it is simply because of low catches.

And that suggests the price war could resume when catches improve.

That is bad news for New Zealand, because the Spanish fish market is rapidly growing in importance.

In 1978, New Zealand made its first sales of fish to Spain, at the modest tune of \$87,000 for the year. By the next year, exports rose to \$2.8 million, and remained about that level last year.

The Spanish, who eat 30 kilos of fish a head of population a year, are in deep trouble with their domestic fleet and have become a major importer.

Spain used to catch 80 per cent of its own fish, but mostly outside Spanish waters — and the European fishing vessels forced Spanish vessels out of their traditional grounds.

As a result, Spain now catches only 20 per cent of its fish requirements, and is forced to import the other 80 per cent.

Law

Cabinet papers disclosure: judicial 'peep' into politics

by Neil Scott

THE recent Court of Appeal decision relating to the disclosure of Cabinet documents is important, but not as revolutionary as some reports suggest. To understand it we need to follow the sequence of events.

On April 27 1981 the Governor-General in Council made an Order applying the "fast track" procedures of the National Development Act to the Aramoana aluminium smelter.

The Act states that such an Order may be made only when the Governor-General in Council considers certain criteria (mainly relating to the essentiality of the work and of speed in its progress) are present.

Various environmental groups sought to have the decision reviewed by the court, on the grounds that the proper criteria were not considered.

The environmentalists sought discovery of documents against the Crown. This is a routine step in any litigation. All it means is that the parties file affidavits listing relevant documents currently or previously in their possession, and indicating those for which they claim privilege from disclosure to the other party.

If any party wishes to challenge a claim to privilege, the matter is determined by the court.

The Crown has a special ground of privilege (not surprisingly called Crown privilege) from the Crown Proceedings Act. In some situations it has an absolute immunity even from making discovery.

In others — the present case is one of them — the court has a discretion as to whether to order discovery against the Crown.

In this case the court decided that, for the matter to be dealt with effectively, the Crown must discover all documents connected with Cabinet or Executive Council meetings on or about April 27 1981.

But the Crown was still left with the right to claim privilege against production (disclosure) on public interest grounds.

The Crown duly complied

with the court order, claiming privilege in respect of certain Cabinet-related documents. The grounds for the claim were set out in a "direction" from the Deputy Prime Minister to the Clerk of the Executive Council. A first, general, ground was that disclosure of such "high level" documents would inhibit the giving of "free and frank" advice.

More specifically, the direction stated that (i) the documents dealt with current Government policies; (ii) the Cabinet paper was a starting point for discussion on a matter depending upon opinions and the future direction of Government policy; (iii) the Cabinet paper might present an "incomplete and inaccurate" picture as it did not record oral discussion; (iv) production of documents indicating the view of an individual minister would undermine collective responsibility; (v) the advice sheet to the Governor-General would not record oral advice; (vi) the oath of secrecy taken by executive councillors would be breached by disclosure.

The conventional view, until recently, was that Cabinet documents as a class were conclusively protected by a ministerial certificate claiming privilege on public interest grounds.

However, in the 1978 case of *Sankey v Whillam* the High Court of Australia held that there was no class of documents immune from the general rule requiring disclosure, except to the extent that public interest dictated otherwise. Therefore, it was always up to the court to decide whether disclosure or non-disclosure best served the public interest.

Shortly afterwards, in *Burmah Oil Co Ltd v Bank of England*, the House of Lords reached a similar decision. However, the balancing of public interests required could not be done unless the court (in the words of Lord Edmund-Davies) "took a peep".

It was almost inevitable, therefore, that the New Zealand Court of Appeal would follow this line. Having noted that inspection by the court should not be undertaken "without good reason" it set

about finding such a reason.

In fact, it was provided by the ministerial direction itself. The judges focussed on several references in the direction to "Government policy". On the other hand, no mention was made of the criteria set out in the National Development Act.

This suggested (to the Court of Appeal) that the Governor-General in Council may not have considered the correct criteria when putting the smelter project on the "fast track".

The direction's declaration that the documents might give an "incomplete or inaccurate picture", through not revealing oral discussion and advice, simply reinforced that view.

Therefore, the court took its "peep" — finding, a day or two later, that "notwithstanding the terms of the ministerial objection" the interests of justice did

not require disclosure. So, after all that, the environmentalists did not get access.

The court's decision to inspect struck a blow for individual liberty and freedom of information — good stirring stuff. However, its grounds for doing so seem to contain the very flaws it detected in the ministerial direction.

That document was concerned with the question of prejudice to the public interest from disclosure. The National Development Act criteria were simply not relevant to that question, and there was no reason why they should have been mentioned in the direction.

On the other hand — if Government policy-deliberation is entitled to be conducted in secret, and it has seriously been suggested otherwise — then Government

policy aspects were highly relevant.

Therefore, in concentrating on the direction's lack of attention to the statutory tests, the court appears to have addressed itself to a point which was not in issue at that stage.

There may well have been good reasons for the court to inspect — but those upon which the decision was made would seem not to have been among them.

Furthermore, the court fails to acknowledge the true nature of Cabinet government. Many people, representing many viewpoints, participate in Cabinet deliberations — inevitably, in a matter such as the invoking of the National Development Act, all sorts of factors will be canvassed, going far beyond the statutory criteria.

The real issue is whether

those criteria were canvassed at the end of the day, not whether they were the only considerations at every stage of the process. To believe otherwise is politically naive.

Indeed, we may wonder afresh whether judges really are equipped to make the decision, in such matters, as to where the public interest lies. For this is a political decision, requiring an awareness and acceptance of political reality.

But on other political fronts the court did pretty well. In ordering inspection by it of the disputed documents it established its primacy as the arbiter of the public interest.

In declining disclosure it avoided a potentially unpleasant confrontation with the Government, which might of itself have undermined the progress already made by the court. Perhaps not so naive...

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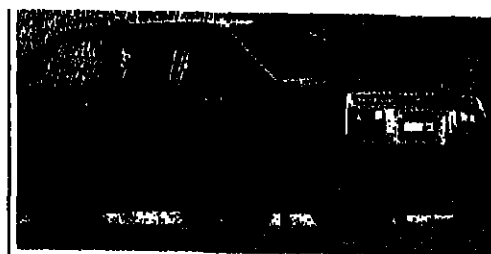
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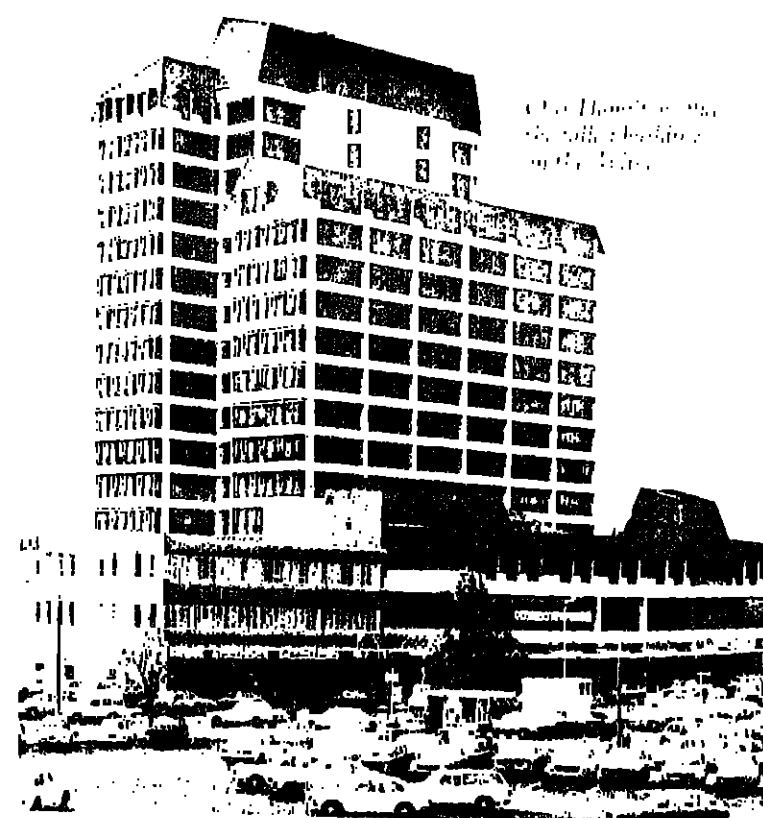
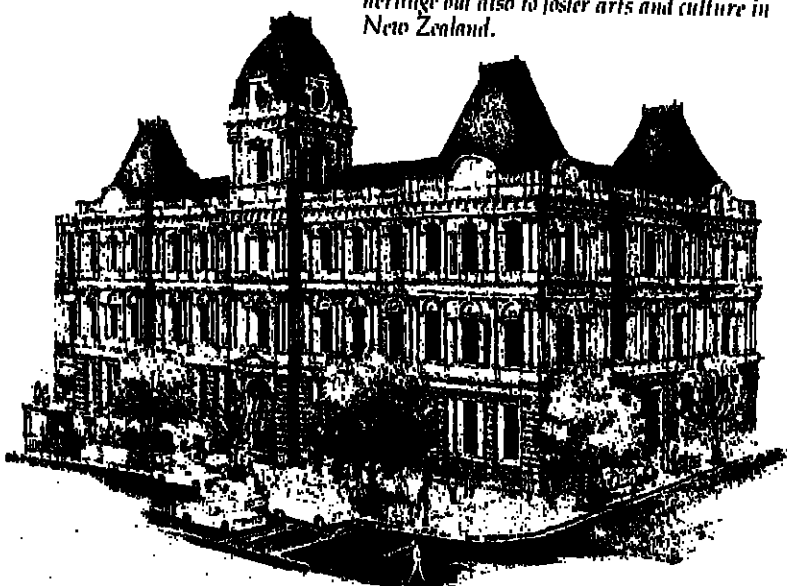
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All our investment funds are professionally invested to maximise yield within acceptable risk levels. Our capable and expert fund management team carefully research market trends for the highest possible return.

All Government Life funds are invested in New Zealand. No money goes overseas. Farming, energy, tourism, housing finance for policyholders and all matters relating to a "better New Zealand" are given special consideration in our investment strategy.

Government Life is the only fully mutual life insurance office owned by the people of New Zealand. Our policyholders are our only "shareholders". All profits are returned each year in the form of this additional bonus cover.

The Old Auckland Custom House. As well as having a sound investment Government Life is pleased not only to be able to preserve part of our heritage but also to foster arts and culture in New Zealand.



Financial Results for year ending 31 December 1980

GROSS INCOME:	1980	EXPENDITURE	1980
Premiums	\$m	Policy Claims	\$m
Investments	50.4	Taxes	40.5
	55.8	Administration	51.7
			130
TOTAL	112.2	TOTAL	59.4
Our Funds are invested in:			
Properties			\$m
Loans on Mortgage, etc.			109.3
Government and Local Body Loans			209.3
Company Shares and Debentures			169.8
Net Current Assets			88.1
			7.1
			583.5
		Total funds	

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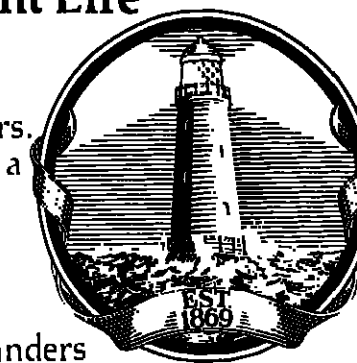


Hutton Peacock,
Commissioner of Government Life

We've changed more than our symbol at Government Life

Our symbol and corporate identity programme exemplifies our commitment to our policyholders. We're building on the foundation of a proud history and heritage and looking ahead to change with the times.

We are constantly seeking new and better ways to serve New Zealanders and their needs — with progressive ideas, sound management and innovative products.



Government Life has a dynamic new marketing direction and innovative management.

As part of our new marketing approach, we've recently conducted extensive research throughout New Zealand to determine current consumer needs and attitudes.

The results of this research will lead to some dynamic new products designed to meet the changing lifestyle and needs of New Zealanders. The changes we're making at Government Life will no doubt have a profound effect on the entire insurance industry in this country.



Government Life's Advisory Board is made up of industry leaders from around the country.

Long term strategy is an essential aspect of our overall marketing strategy and growth plans. In addition to our marketing team and Executive Committee, we also have the benefit of a unique Advisory Board. This Board is comprised of business and industry leaders throughout the country, who assist in monitoring the changing economic climate and help us in our future planning and direction.

Government Life is also in the process of recruiting additional professional individuals to join our team of representatives. Our new training program is intense, challenging and produces impressive results — our representatives are highly qualified to give the best possible service to our policyholders.

This year is only the beginning

Our outstanding financial results and accomplishments during the past year prove that Government Life is on the move. And we'll continue to keep looking ahead — with sound management, progressive ideas, and a commitment to meet real consumer needs in a challenging world.

This year is just the beginning of the new Government Life.

Hutton Peacock

Hutton Peacock, Commissioner

Railways

Kingston Flyer now wasted, idling in Southland

THE once-popular New Zealand Railways tourist train, the Kingston Flyer, doesn't do much pulling these days, a situation that won't likely be remedied until politicians take their courage in their hands and transfer the vintage train out of Southland.

Set up in 1970 at the behest of then Transport Minister Peter Gordon, the Flyer (which is, in fact, two steam engines and attractively-painted carriages and buffer cars) became a familiar sight plying between Lumsden and Kingston in Northern Southland in the summer and autumn tourist season.

But not even combined tourist numbers from Te Anau, Queenstown and Invercargill could hide the fact that costs were rising on the Lumsden-Kingston run, which was used by only a few, very small goods trains each week.

NBR was the first newspaper to predict that the Flyer would be taken off that run, a prediction at first denied by the department and politicians.

But in 1979, the department moved, and after some bitter protests from Northern Southlanders that they were not being given a fair chance of making the Flyer pay, the Flyer was shifted to Invercargill to soften the blow.

The Kingston-Lumsden line has since been closed, and the Railways no longer has to meet large bills for track repairs when floods strike the line.

But the shift to Invercargill has also been a failure, and the department must now be seriously considering shifting the Flyer out of Southland for good, a move that should gladden the hearts of northern tourist promoters and railways enthusiasts.

The Flyer first ran from Invercargill on excursions in December, 1979, and January, 1980, to such destinations as the port of Bluff and the Western Southland town of Wairio.

Generally, the trips were well patronised as Invercargill residents discovered the delights of old-time train travel.

But charters between February, 1980, and last December were few and far between.

The last season was even worse. Passenger numbers were down 30 per cent on the trips to Wairio and 15 per cent on the runs to Bluff, and that meant a loss of \$10,000 for the department for the season alone.

Since then, the news has been even grimmer. Only three charters of the Flyer have been taken out, and the department is not expecting any more before spring at the earliest.

Departmental officials have expressed disappointment at such an apparent lack of interest, pointing out there are only 235 seats to fill.

But locals have resisted mainly because of the high charges. To charter the train for a trip to Bluff could cost between \$800 and \$1000, depending on the time involved.

Longer trips could cost several thousand dollars, while a trip to Alexandra would cost about \$10,000.

For the shorter trips, the cost shared among 235 people does not seem unreasonable, but as many are likely to be families, they add up to a sizeable lump for the person paying.

In spite of the lower patronage and dismal forecasts, Transport Minister Gollin

McLachlan has promised the Flyer will stay in Southland for another season, and he has said it could never run as an economical operation, even during its season.

But he has steadfastly refused to lower the charter costs during the off-season because he said his department could not be expected to absorb charter losses as well.

There are several elements which constitute the rate charged, including staff wages, fuel consumed, locomotive and carriage running costs, and it must also make a contribution towards the department's fixed costs.

Direct costs of charters must

be recovered, McLachlan said. "We are talking to a steam train. It cannot be simply cranked up before an excursion and switched off at night like an internal combustion engine," he said.

The department's charging policy also means that costs will be higher at weekends or public holidays when more people are available or likely to use the Flyer. During the week, when fewer people are interested, costs are lower.

Nobody can see a solution to the problems in Southland.

The province's largest tourist promoter, the Invercargill Licensing Trust, wanted a five-year commitment, a longer

season from October to March and more frequent trips. That was not forthcoming, and the trust has found it cannot pre-

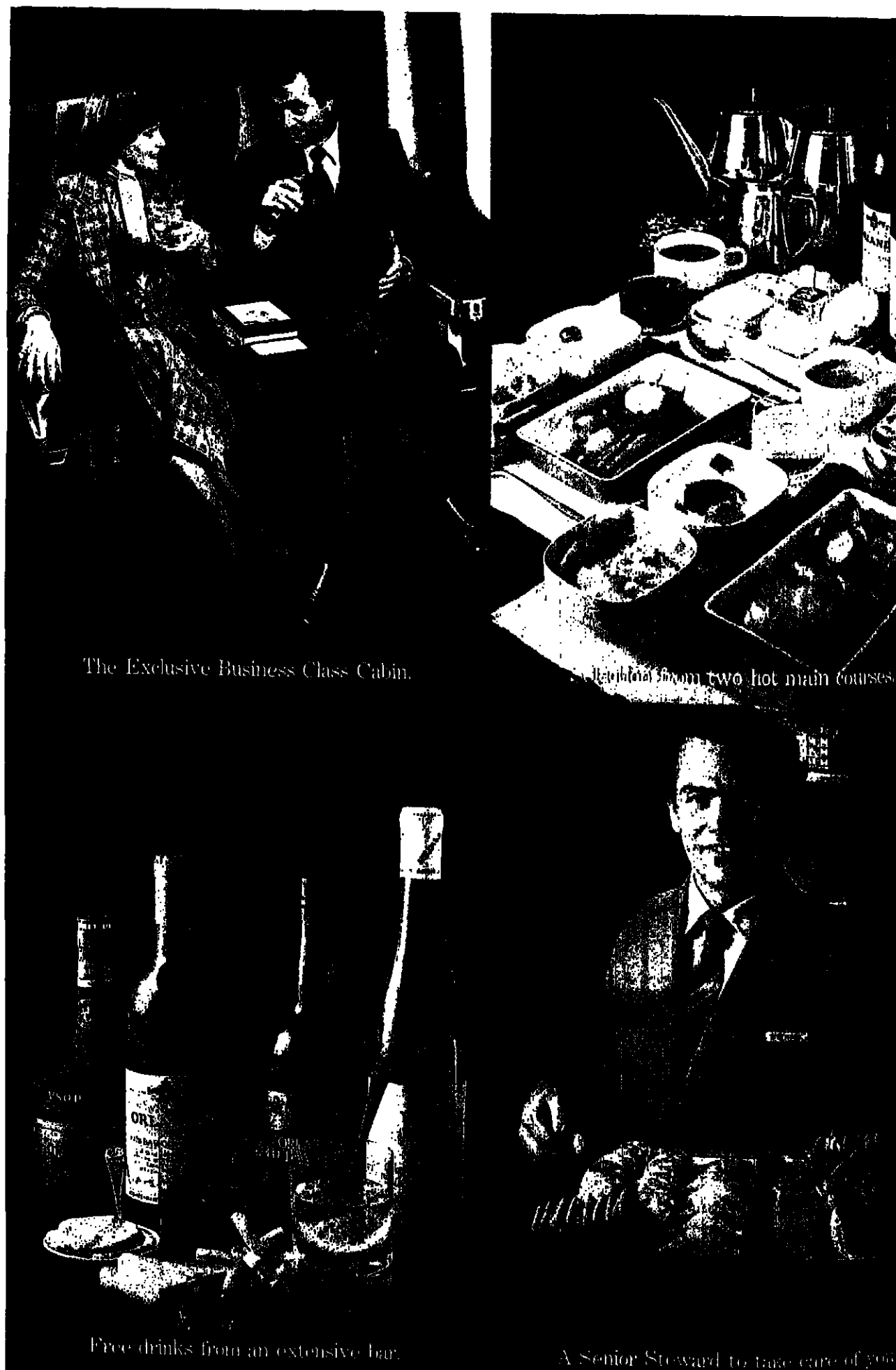
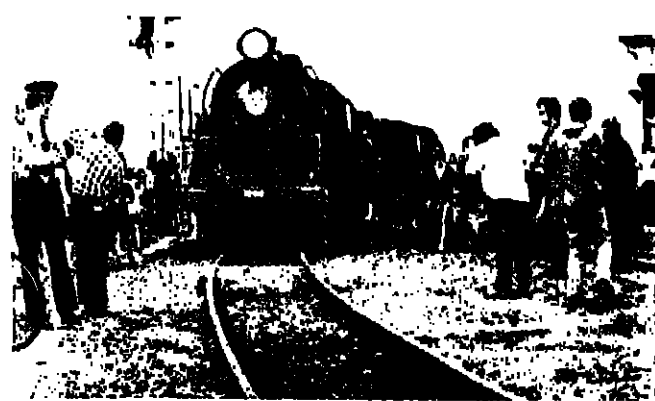
sell trips on the Flyer in such a short time.

The lack of a future also means that there are few

facilities at potential terminals. For example, at Bluff, passengers get off the train in shelterless railway yards — the Bluff railway station was burned down some years ago and was not replaced — which brings discomfort when it is cold or raining.

Local pundits are not predicting changes before the election because the Flyer remains a hot issue in the south, with many believing it should still run on the Kingston-Lumsden line.

But by January next year, the Flyer should be travelling north for a permanent home in more profitable and populous territory.



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Overseas trade

Pacific islands concern at lessening NZ interest

by Allan Parker

PACIFIC Islands businessmen and government officials are increasingly worried that New Zealand is downgrading the importance of the region as a trading partner.

Their concern is reinforced by New Zealand businessmen currently exporting to Pacific Islands, who see recent Australian promotional and transport moves in the area as threatening.

Recent events to underscore their fears include:

- New Zealand Government refusal to sponsor a proposed trade fair in Tahiti;
- Air New Zealand moves to

reduce its flight services to the Cook Islands and divest its one-third share in the Rarotongan hotel;

- New and proposed flight services by Australian airlines into the region;
- A beefing-up of official

Australian support for trade initiatives to Pacific Islands.

One Auckland businessman said: "With all these happenings I can see a vacuum being created in the market — one that will be filled by the Australians who are becoming very aggressive in the area."

The Export Institute, too, is "concerned" about the developing trend, according to a spokesman.

The institute has abandoned plans to hold a trade fair in Tahiti, originally scheduled for September, in view of continuing Government refusal to sponsor the would-be New Zealand participants. (NBR, June 8).

The Government decision was made because of fears that the French Government would be upset by such a trade fair, although the French trade counsellor in Auckland, Christian Beaupre, denied there would be any problem.

Proponents of the fair also pointed out that Australia held an export fair in Tahiti last year. The fair was so successful that the Australians intend

holding another in Papeete later this year.

As well, NBR has learnt, the official Australian air carrier Qantas will start a three-times-weekly service between Sydney and Papeete in September, indicating the increased importance being placed on the French colony in particular and the Pacific region in general by Australia.

The leader-to-be of the New Zealand fair in Tahiti, Aucklanders Gilbert Ullrich, said he was "terribly disappointed" with the Government's refusal to reverse its no-go decision and subsequent Export Institute agreement not to proceed independently.

Ullrich, whose company Ullrich Aluminium Ltd, is a long-time exporter to the region, said Tahitian businessmen felt New Zealand was not supporting their efforts to sell "made in New Zealand" goods to the Islanders.

Coupled with these moves is Air New Zealand's announced desire to cut back air services to the Cook Islands and to dispose of its holding in the Rarotongan Hotel.

Cook Island reaction to the statements by the New Zealand Government-owned carrier has been sharp. Tourism Minister I Short was quoted in the *Cook Island News* thus: "In my view, Air New Zealand, by virtue of

its monopoly position, has an important part to play in the tourist industry in the Cook Islands and it cannot shirk its responsibilities.

"If Air New Zealand pulls out then it is clear that it has never accepted its true responsibility to the Cook Islands development, particularly in the tourist field."

To fill the threatened gap, the Cook Islands Government has invited two Australian airlines — Qantas and Ansett — to look at servicing the islands. Of the two, Ansett is regarded as the front-runner.

Finally, the Australian Government is running a significant number of official trade promotions and exhibitions throughout the Pacific this year.

At least six trade promotions will be held this year, including the Papeete one.

In contrast, the only official New Zealand sponsorship of a trade promotion in the Pacific this year is an exhibition of New Zealand goods in a Port Moresby store later this month.

An Australian trade representative in New Zealand is reported to have told an Auckland businessman that the Australian Government is giving "maximum support" to Australian exporters moving into the Pacific.

As well, Qantas is reported to be marketing its services — and Australia — aggressively, offering Pacific Islands businessmen free or discounted flights to the Australian mainland.

One business source told NBR that Australian exporters are achieving better results than New Zealand in New Caledonia, selling comparable quality goods at a higher price. While New Zealand has captured only 4 per cent of the market there, Australian businesses are now up to 11 per cent — and growing.

New Zealand exporters attribute this in part to the decreased air cargo space available.

Said one: "Sometimes on the Air New Zealand 737 flights to Fiji, filled with holidaymakers and Fijians returning home, the plane can't even take all the passengers' luggage let alone the cargo!"

The Export Institute agrees that declining air freight services to the Pacific are worrying.

"There has been a gradual diminishing of air cargo capacity in the last six months. It's not likely to be reversed," said a spokesman.

"We're conscious of what the Australians are doing; they are very active in the area."

"They have a network of official and unofficial trade missions and exhibition activity that is greater than ours."

The institute hopes a "reverse-buyer" trade fair in Auckland next year will help counter the trend. Some 500 key Pacific Island buyers will be wholly or partly sponsored to the exhibition.

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You'll be pleased to know that on every one of our twenty-two Boeing 747's you'll find one of our exclusive 'Business Class' cabins.

Flying Qantas Business Class on any of our routes throughout the world means you'll find yourself sitting in a wide comfortable lounge chair that most airlines would be proud to have in their first class cabins. These chairs are arranged in pairs so no passenger is more than one seat from the aisle.

They're also positioned in a completely separate Business Class Cabin, unlike many airlines where executive class, or whatever they call it, offers little more than the dubious privilege of being sandwiched in between first and economy — in an economy class seat.

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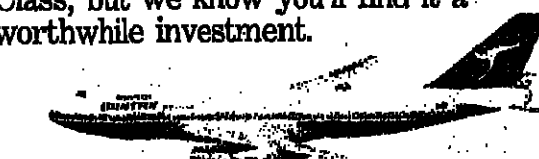
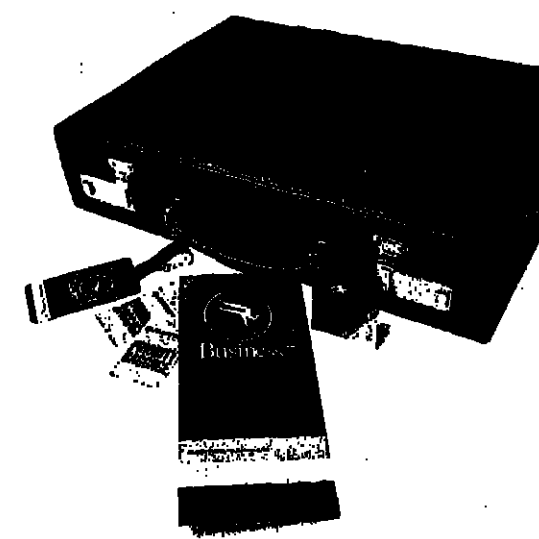
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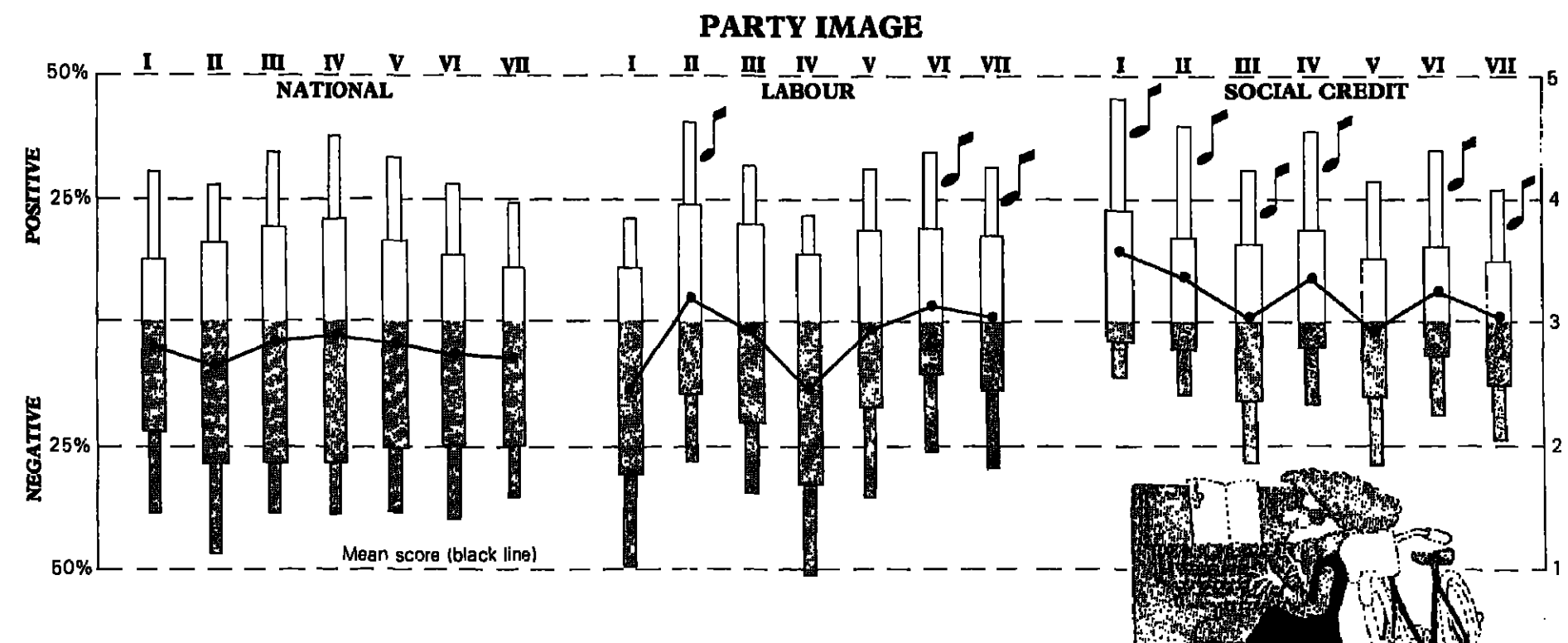
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"We used to be a high flyer. Now we're a high driver."

The Polls

[illegible]

Thailand: tourism prospers in mingling of cultures

UP HIGH in the misty mountains of northern Thailand, the Meo hill tribe folk openly smoke opium and the kids beg for Baht as moneyed Westerners bargain among them for silverware and handicrafts.

Two thousand kilometres to the south, just above the Equator, the wealthy gambol in the warm Andaman sea — protected in their luxury hotel resort compound by barbed-wire fencing that keeps the locals out.

The typical rich and poor confrontation. East meets West. Developed world in contact with developing.

And, as always, the dilemma:

how far should culture shock be allowed to proceed.

For the Thai Government, the problem has become more complex by the economic surge it has experienced in recent years, a surge in common with other Asian and ASEAN nations such as Taiwan, Hong Kong, Singapore and Korea.

This new internal wealth has created a new middle class within Thai society. With cash in their pockets, these middle-class Thais are touring the sights of their own country as never before, bringing the country's own differing attitudes and habits to the tourist centres previously reserved largely for foreigners.

The result is a massive boom in the Thai tourist industry, with the obvious strains on cultural centres, natural beauty spots and handicraft factories that such rapid growth inevitably brings.

The foreign visitor industry is crucial to the Thai economy. It now ranks only second behind rice (Thailand is a huge rice bowl) as an export earner and Thai tourist officials anticipate tourism will outstrip rice to become the major export earner within a few years.

Comments one official from the Tourism Authority of Thailand (TAT): "We are limited in the amount of rice we can grow because of land

availability, but tourism operates from a natural renewable resource which is virtually unlimited."

Last year, nearly two million foreigners sampled the attractions of Thailand. Malaysian visitors were the most predominant (335,000) followed, in order, by Japan (250,000), Hong Kong, the United States, West Germany, Singapore and France.

Australia was eighth with 67,000 visitors. Just 8500 New Zealanders went to Thailand in the same year (a 5 per cent rise on the previous year).

With a tourist industry growing \$750 million a year, no country trying to increase its

living standards — particularly a developing nation with a large and traditionally poor peasant base — is going to close its doors to foreigners.

But, equally, the impact of moneyed foreigners on a society where the average income is only about \$100 a month is significant.

The hill tribes people of northern Thailand are one example. For centuries they have wandered the mountains and jungles of northern Thailand, Burma and Laos.

Smuggling and poppy growing for opium production have been their major occupations over the years and some of the

tribes were discovered less than two decades ago.

Today, the Meo people wear Japanese watches, sell local crafts and silverware in an alien environment of Bangkok and transport their goods nearby Chiangmai's night market on imported motorbikes.

The young are trained at university and the royal family has begun a programme to substitute poppy flowers for banana trees.

"Civilisation" has been to come to the Meos.

A major reason is a uniqueness of their lifestyle: the exotic "thrill" of a poppy trade. As tourism spread to Chiangmai, Thailand's second largest city, so has interest in the sun, sea and country people.

On the road up the mountains that lead to the village lie the major attractions — to Thais and foreigners — of the 700-year-old Wat Phat Doi Suthep temple, the King's winter palace.

It is only natural, then, that the sun-seekers continue extra half-hour into the village.

Thus the problem has: should 20th-century people reach primitive land? And the Meos have the same as other Thais to benefit from the riches that tourism and national development bring?

The Thais are nothing but a pragmatic people. They recognise these problems — despite of tourists to see the sights, the right of the Meo to become full citizens.

with an industry keen to treat the 'customers' right

associated benefits, the need to bring the two together with caution.

To cushion the advance of 20th-century Western culture shock, the Thais have deliberately left the route above the king's winter palace a dirt/mud track, remarkably similar to New Zealand bush tracks. The more comfort-oriented, less-adventuresome — usually the crassest of tourists, anyway — are thus discouraged.

A small gesture perhaps. But given the rapid advances of Western "civilisation" into the nation as a whole, it is an awareness of the need to make the process as gradual as possible.

Thai realism about modern tourism extends to Bangkok — the teeming capital of 4.5 million where traffic and its pollutants have reached absurd levels. Nightlife is, of course, a standard service expected by today's international traveller.

In Bangkok, Patpong Road — the street of bars — is Thailand's Soho, King's Cross and Pigalle.

Patpong has achieved an uncommon degree of international fame for its notoriety depending on your stance for its bars and massages and girls and other services.

While not condoning Patpong, tourist authorities are at least prepared to recognise its existence and its services.

For example, one tourist guide to Thailand is probably one of the bluntest available about any internationally-known night district.

To quote: "A drink on Patpong Road will cost around Baht 40 (\$NZ2) for a beer, slightly more for spirits."

"Unlike many parts of the world, you will not be hassled to buy drinks for the bar girls. They will probably suggest it to you, but if you say no, that's it, and no bad feelings."

"If you do decide to treat the lady of your choice, and there's many to choose from, her drink will cost around Baht 25 (\$NZ1.25).

"Many of the girls are prepared to continue the relationship after hours, in which case it's up to you to establish a mutually acceptable arrangement (reckon on an average of Baht 500 — \$NZ25).

"A few words of warning — don't pick up girls on the streets around Patpong — they may be boys! Also, steer clear of the many touts in the area."

"If you do decide to see one of the girls after the bars close, remember that most of the larger hotels do not allow unregistered guests in the rooms (although some may just double the room rate for the night). There are, however, many small and inexpensive hotels around town, who cater for the 'short-time' visitor."

"A trip to the massage parlour will cost you around Baht 100 to 150 (\$NZ5 to \$7.50) an hour for a straight massage, and two or three times this for a special massage."

Such openness is typical of the Thais. They may not advertise difficulties willingly, but if questioned they are remarkably forthcoming about the problems their tourist boom is creating.

Certainly, though, the Thai commitment to tourism is total. The official Tourist Authority of Thailand (TAT) has recently been upgraded in national importance, manpower and budget, with offices in major centres around the world.

Special tourist police patrol

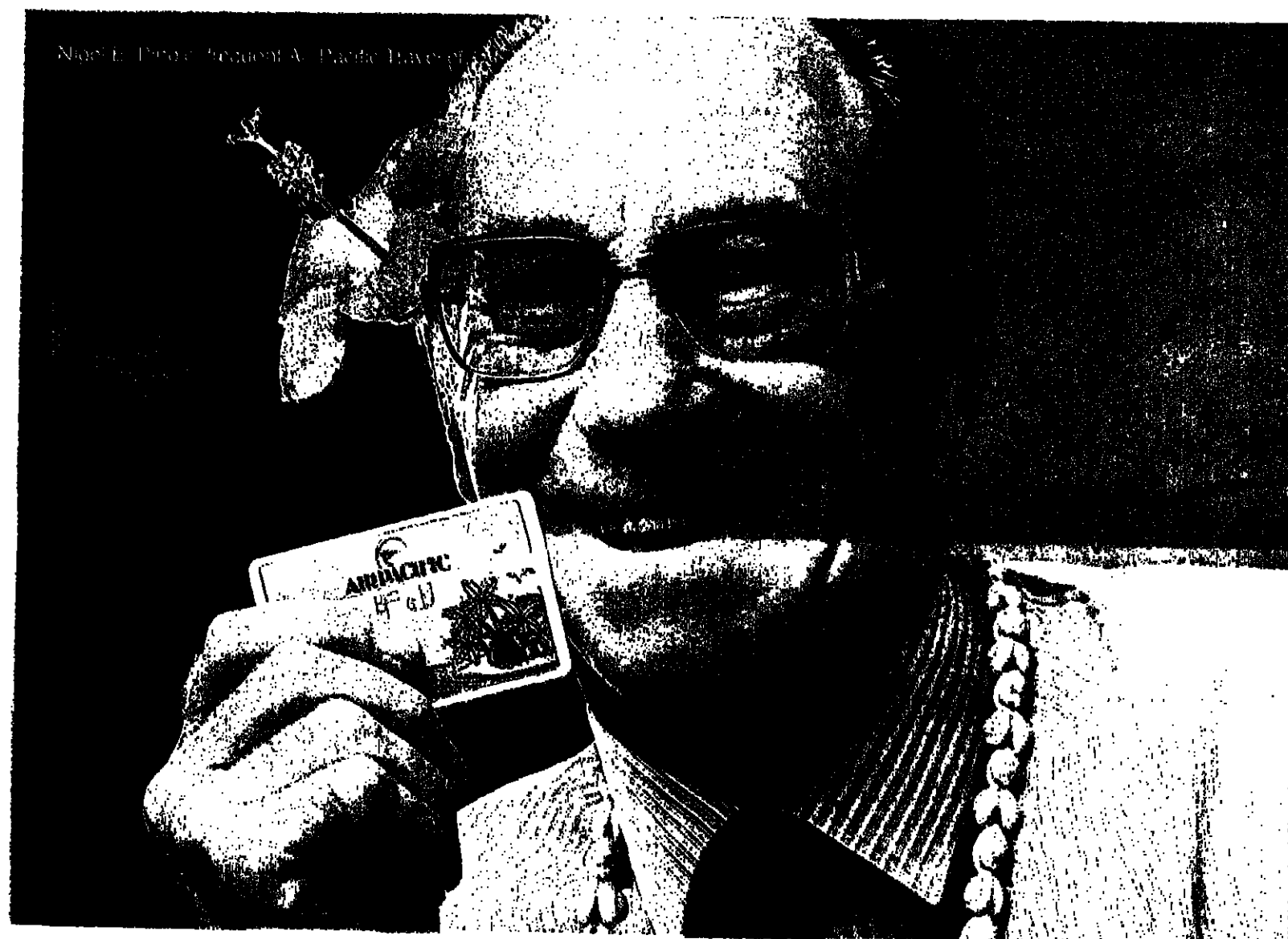
TOURISM is already a major industry in New Zealand, with export earnings of well over \$100 million a year. Industry planners and politicians predict higher growth in coming years as the world shrinks and the unspoiled attractions of New Zealand become more widely known internationally.

But the rapid growth in recent years — and forecast increases — have placed strains on accommodation and raised doubts about the impact of large-scale tourist traffic on the very beauty spots that attract the foreigners (and New Zealanders) in the first place.

The debate is likely to increase rather than be resolved in coming years. Like New Zealand, Thailand is undergoing a major tourist boom. And, again like New Zealand, the Thai Government has had to assess the impact of large-scale tourist traffic on cultural and natural beauty centres. In a recent visit to Thailand, NBR reporter Allan Parker was able to examine how the Thais have approached the problem.

Bangkok streets to help needs of tourists and locals alike and trying to accommodate both on a path that is a flexible one, recognising the

minimises confrontation.



ISLAND TRADER

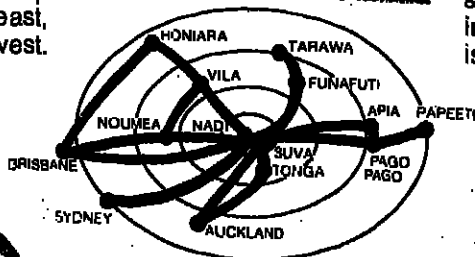
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Thai interest in NZ link

by Allan Parker
THAI Airways International has reaffirmed its interest in operating a service to New Zealand as Thailand moves to boost its already-booming tourist industry.

The airline has unsuccessfully promoted the idea for the decade and Air New Zealand has reacted indifferently to suggestions of reciprocal trade rights.

At a recent briefing in Bangkok, senior Thai International officials told visiting New Zealand journalists that the national carrier would like to extend a service to Auckland.

The officials believe extension of the service could run into Noumea, Manila is the best option. The route could pick up an air round-trip taking Sydney/Melbourne, Bangkok, Manila, Noumea, Auckland.

Thai International flies to Noumea twice-weekly, through the Philippines. The airline marketing officials believe the carrier would need a minimum of two flights a week to Auckland to make the route profitable.

"But it takes two to tango," was the very comment of a Bangkok official. "We think New Zealand was interested once, but we don't believe it so interested now."

The renewed interest in New Zealand is part of a country marketing push by the Thai into the Pacific. One official described the region as a "new area for Thai promotion."

The "southern-silk" is hoping New Zealand will increase its multi-national work weave.

Ministry of Transport civil aviation officials meanwhile have had discussions in Buenos Aires with Aerolineas Argentinas on the future of the Argentinian airline's flights across the polar cap to New Zealand.

It was decided that AA will continue its present monthly flights, for which there has been a big demand in Argentina, and extra flights will be offered during the summer for specific events such as the Rio carnival.

The Argentine national carrier believes its present scheduled service between Buenos Aires and Auckland is likely to spark off a trade boom between the two countries.

The airline cites the example of its Argentina-South Africa service established three years ago. At that stage, Argentina-South Africa trade was almost non-existent, but today stands at \$60 million annually.

A spokesman for the airline said the 60 per cent passenger loadings on the current monthly flights convinced AA that the route is potentially commercially viable.

The airline believes it will eventually increase flight frequency to a weekly service. It had wanted to extend its flights through Auckland to Australia, but permission is unlikely as this would place the airline in direct competition with Air New Zealand.

Aerolineas Argentinas sees two key markets for the new route. It points to a massive growth in Argentinians travelling abroad and seeking new destinations, and a likely boom in business travel, coinciding with a strong growth in trade between the two countries.

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Restructuring: implementation techniques, resources

by Ben Davis

RESTRUCTURING the country's economy has been much discussed and debated, but virtually all the emphasis has been on the final result at the end of the process of change.

We have focussed on what would be the new structure — what share and priority agriculture will be given compared with industry; which industries are preferable; how much the agricultural sector should be diversified from meat, dairy and wool; and so on.

If all the right decisions were made as to what would be restructured (changed), and by how much, our country could still experience great disasters. The reason: successfully accomplishing the process of change is almost as difficult as making the right decisions.

Why the role to be played by the public sector is crucial requires understanding of the process of change and the lag in feedback as to the degree of success achieved.

Whether the correct restructuring decisions are made will not be known until the 1990s or later. But if we do a poor job of implementing those decisions, whether they were right or wrong will never be known. The economy will become a shambles on the way to the promised (restructured) land because:

- The work to implement restructuring decisions is very difficult and different from what we do now;
- Techniques and skills necessary to successfully accomplish the process of change are known, but it is not known whether New Zealand will rise to the occasion.

Restructuring can be described as:

- Establishing a comprehensive and inter-related set of goals that define the new "shape" of the economy to be achieved within a stated time period;
- Accomplishing the reallocation of resources in both the public and private sectors so that resources conform to the new economic "shape".

Because the public sector is so intertwined with the economy, and because only government can reasonably be assigned responsibility for the national interest, the role of elected officials and the bureaucracy is crucial. Leadership by the public sector must establish and control the process of change that will take New Zealand successfully into the future.

The public sector does not have enough high-quality skills needed to perform its role in restructuring. Stated broadly, the special skills needed are high-quality managers and technicians who can perform sophisticated problem analysis, conceptualise solutions (almost always complex system-type solutions), and then implement solutions to achieve necessary change.

The public sector does not have enough high-quality resources because a lesser quality has been adequate for most past and present government activity — the performing of administrative functions in a status quo economy (all changes actually implemented since the 1973 oil crisis have been peripheral and marginal, not central and significant).

Restructuring calls for high-quality resources because tending the status quo is so different from accomplishing major change. Tending the status quo is comparable with a stroll to the local dairy on a fine day for the items on a list, with the list and the required amount of money safely in pocket.

Major change involves a very different shopping trip. Under those circumstances, an attempt is made to locate a dairy in a strange neighbourhood. The list of items to buy is safely in pocket, but the items on the list change rapidly during the search for the dairy. The prices of the items are changing almost as rapidly as the list, and the amount of money in pocket is not known. The weather is dreadful, and the car has steering problems and only one speed; too fast.

Under the status quo situation, many people are capable of returning home with all the items on the list. But how many of us would be successful under the appalling conditions of a major change situation?

The above analogy highlights three major difficulties in managing restructuring:

- No matter how carefully and competently the long-range goals are selected, it is known from the outset that they will have to be modified, more than once, during the process of change;
- There is imperfect knowledge of resources available, resources required, and what the cost will be;
- The voyage into the future is over unknown ground, in a vehicle over which we have imperfect control, and the speed of events is too rapid.

These difficulties are further complicated by some of the characteristics of a major change situation:

- There are various combinations of shorter-range objectives that could achieve the long-range goals. Selecting the best combination is quite difficult;
- It is impossible to successfully change an economic system if the process of change is attempted systematically. An economic system is not changed *per se*, but is achieved through a series of major changes to industries, markets, government departments, boards, authorities, and so on. Virtually all changes are system-type changes because of the magnitude of work required and interrelationships with other parts of the economy;
- The most notable feature of a system is the series of relationships. All parts are related, some directly and others indirectly, and it is not always possible to establish the type of relationship. When a system is

LAST week's article in this series by Ben Davis described restructuring as an artificial way of accomplishing economic change. Because it is artificial it is difficult to accomplish successfully, and disastrous consequences result from poor management. This article primarily looks at the crucial role to be played by the public sector and why government is unprepared for that role.

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Railways... need to "Think change"

can be more difficult than achieving something new. Consider the following example.

Government establishes a policy that requires the Railways Department to achieve the following:

- **Minimum requirement:** The existing level of socially desirable rail services (ten daily passenger services) shall not be further reduced and the excess of cost over revenue (when expressed in per cent terms) shall not exceed the defined variance for last year.

- **Maximum requirement:** The probability of rail freight being increased by x per cent a year for the next five years. The revenue from passenger services shall increase by y per cent a year for the next five years. Both increases shall be weighted (adjusted) by an index that will reflect changes in the level of economic activity, therefore net increases achieved will only reflect improved department performance.

Successful implementation of that policy would require significant organisational, management, and staffing changes within the Railways Department. Those changes would reflect the partial shift from status quo activities to change-orientated activities.

Concerning a programme and project structure to achieve the goals set forth in a policy statement (such as the Railway Department example) is comparatively easy. A balanced

The Government must provide leadership to establish the country an understanding of what is involved in the process of change and what will be the New Zealand version of that process (how we will about restructuring the economy).

It must perform pilot projects as examples of successful change.

And it must provide leadership to the bureaucracy in fulfilling its role. Departments which directly provide goods and services must be restructured, and other departments must be restructured to the extent they must co-ordinate the guidance and co-ordination functions for the private sector.

The tools for accomplishing this are available for adaptation and use. The special skills needed by managers and staff are available to be learned. The unknown factor is whether sufficient numbers of managers and staff are willing to enter a much more demanding work environment.

The problem of bringing about sufficient change in people and organisations to successfully implement restructuring decisions is addressed in the next article.

College House boarders

I READ with interest Gordon McLauchlan's pen portrait of John Wareham and his recently published *Secrets of a Corporate Head-Hunter*.

However, for the sake of accuracy, I must point out both John and his father Jack are ex-College House boarders of Palmerston North Boys' High School.

RJB Clevely
Wellington

Galbraith seen otherwise

THE tone of the review of Galbraith's latest book, *A Life in Our Times*, rather suggests that Gordon McLauchlan knelt on the floor, his typewriter in front of him, gazing reverentially at a life-sized statue or picture, all 6ft 8½ inches of him, of JK Galbraith.

The book is not yet available here but coincidentally, I have a Galbraith almost as recent, *Almost Everyone's Guide to Economics*, actually written with Nicole Salinger, a French writer who asked the questions. This makes it a very readable book and the earlier part does furnish a clear picture of what basic economics is about; but, of course, the Galbraithian message comes through loud and clear interspersed with the usual collection of snide remarks, and witticisms which

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THE
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I find, quickly move from the amusing to the irritating. The message is as Gordon McLauchlan spelt it out. The market is dead, smothered by the large corporations which fix their own prices. An exception is food and small servicing industries.

The book was published in 1979. In 1980 Chrysler nearly foundered because it failed (naturally) to meet a market which wasn't there!

A quote from page 43. "In western economies the orthodox don't want to admit that the market has declined. In the socialist economies the orthodox don't want to admit that the market is still necessary."

The fact is, of course, that market forces do operate, always have done and always will do. Even in the publishing world papers and magazines which do not provide what the market wants tend to fold up.

I don't imagine it at all likely that pure Friedmanism will be adopted but for McLauchlan to suggest that Galbraith's thinking penetrates more deeply than Friedman's is ludicrous nonsense scarcely worthy of a responsible business paper.

This is amply illustrated by reference to the Galbraithian policy for current economic problems. He would establish a policy known as CIPP (Comprehensive Income and Prices Policy) which would bring together warring interests who would agree on a wide range of controls on wages, prices, etc, which, he claims, is necessary because the market doesn't now work. Neither have prices and incomes policies except,

perhaps, in wartime (Galbraith was in charge of price control during World War II) as Britain and Lilley have shown in their book, *The Delusions of Incomes Policy*.

Galbraith is the most readable economics writer since Adam Smith, the difference being that Smith had a lot to say that was both analytical and constructive. Galbraith might well have done the same had he not developed an unfortunate paranoia about corporations which has become a sort of King Charles's head in all his writings.

Galbraith, however, is no socialist. He wants a fairer society which works only because just about all economic activity is hedged around with controls which experience has shown grow like nuclear fission as people find ways around them.

His solution for the large corporations is not to abolish them or nationalise them. At one stage he turns a question on his interlocutor and asks, "Have you thought what we would put in their place?" He would have a sort of supplementary board of auditors for each large corporation to vet and monitor the activities of the company. There must be room for doubt as to the practicability of such a proposal.

Business interests invited Friedman to come and see us and talk to us. Perhaps the Government could reciprocate by inviting Galbraith, perhaps to stay a little longer this time, and make a study of "How to Wreck an Economy by Pleasing Everybody."

J V White
Wellington.

Gordon McLauchlan replies:

I do not kneel before JK Galbraith but I admire him as a writer and as an economic philosopher above Milton Friedman and in temperate and reasonable language tried to explain why. What a shame Mr White

can't agree to differ and explain his opinion without adopting the spreading New Zealand style of abuse in argument by asserting my opinion "is ludicrous nonsense scarcely worthy of a responsible business paper".

A lot of publications carry Mr White's opinions which are shaped, I believe, by long experience in the public service and which I don't find ludicrous nonsense. I just wish he would stop jumping up and shouting them.

J V White
Wellington.

Access Data not related

ACCESS Data Ltd is a micro-computer consulting company based in Napier with offices in Taupo, Rotorua and Hamilton. It is in no way connected with Data Access and there is no Data Access registered in New Zealand as a company name.

We have a staff of 37 EDP specialists and are the biggest micro-computer consultants in New Zealand.

Our business is flourishing and we are agents for Allos computer systems, National Panasonic and Radio Shack computers.

We also have an electronic engineering division which is developing a range of cash registers that are completely computer-controlled. These will be available to the retail trade sometime in July.

To our knowledge there is no comparable equipment under development anywhere else in the world, and we already have markets in Australia, America and Austria.

Already there have been several references to our financial position by people confusing Data Access with Access Data and we would appreciate an explanation being printed.

Tom C Ellis
Manager
Access Data Ltd.

How to develop your exports to the expanding Gulf markets

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Formed as a joint venture between the New Zealand and Bahrain Governments, the new BANZ facility at Mina Sulman, the premier port of Bahrain offers ten acres of warehousing, cold-storage and distribution facilities.

Bonded storage is offered so goods awaiting transshipment do not attract duty.

Mina Sulman is one of the most modern and most efficient ports in the Gulf. In conjunction with the Mina Sulman Port Authorities the BANZ facility offers your company a thorough, competitive specialised service, second to none in the Gulf.

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- BANZ is close to Bahrain International Airport which is well equipped for handling onward cargo.
- A planned arterial road will link the Eastern approaches of the proposed Saudi Arabia-Bahrain causeway to the existing highway system near the port.
- Holding area for supply to local Gulf markets; so smooth year-round deliveries can be maintained.
- Delivery anywhere in the Gulf within a maximum of 10 days after arrival at BANZ.
- Cost advantages from a single forward base serving the whole Gulf area.
- You can save by using bigger shipments and deep water transport.

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The do-nothing option: using our computer age skills

WHEN considering alternatives to the planned second smelter we must first consider the option of doing nothing.

If we believe that good government is one of minimum interference, particularly in business affairs, then this option is appropriate.

If the smelter is truly an economic business venture then it ought to be able to stand the economic realities of the marketplace and not have any preferential treatment such as subsidised electric power.

Any difficulties the investors have through the size of the plant, such as obtaining a large parcel of land on the open market must be considered to be offset by the economic advantage that size alone brings.

A do-nothing option will result in apricot growers remaining employed, the production of exportable produce for

THIS week's suggestion for use of the nation's natural resources comes from I P Bielecki, qualified in chemical engineering and formerly a senior lecturer in Computer Science at Massey University. From this year he describes himself as a "freelance programmer/computer consultant/independent scientist/retired/house manager/farmer (unemployed)".

zero capital investment and zero consumption of foreign exchange. Can this be considered an infinite rate of return?

But by asking for approximate rates of return, NBR is implying that this is the appropriate arbiter in this argument. We should look at our objectives before we start trying to measure a project's performance.

The National party has a set of objectives which relate to private enterprise. This does not mean that one large enterprise is necessarily better than many small enterprises even if

it is simpler administratively. A large smelter would soak up so much capital that many small businesses will be starved for funds.

As a Government, their objective function should be related more to the interests of all the citizens rather than just party followers. Company benefits should not come into it directly as they do not have any right to any direct voting role in our political system.

The national interest of the people is best determined by the people themselves, sug-



Computer technology... potential for our software

gesting again that Government interference should be minimal. In our inefficient political system our elected representatives do not fairly represent the variety of views held by the public.

Certainly, surveys such as that done by the Commission

for the future could be taken as a guide.

Its survey shows that large-scale economic development, with 7 per cent support is the least attractive approach. Even the opposite extreme, emphasising social and environmental growth with no economic development is nearly twice as popular with 13 per cent support.

People want a balance between economic, social and environmental emphasis. That is the national interest. The smelter does not fit this objective.

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Its survey shows that large-scale economic development, with 7 per cent support is the least attractive approach. Even the opposite extreme, emphasising social and environmental growth with no economic development is nearly twice as popular with 13 per cent support.

If our objective function is defined to be more specific, such as minimising unemployment, we can approach the problem with mathematics rationally.

Given that Government interference is undesirable, the state must operate its levers of control fairly to optimise our objective function. The Government could price electricity (which is claimed to be in oversupply) cheaper on the basis of the number of extra employees taken on.

The hidden hand of the marketplace would respond to improve the objective function. This may take some time to operate so corrections to the rates will have to be applied slowly.

It is the fault of the Government that it has been so slow to recognise that unemployment must be reduced in the national interest and take some action.

A reduction of the working week from 40 to 35 hours ought to be considered as an option that will make it more economic for industry to take on more labour.

A 30-hour week would make it convenient to run plant on a 60-hour week with two separate daylight shifts. The microprocessor revolution will force it eventually.

Certainly here could be a need for some new industries to improve the balance of payments. A foreign dollar of import saved is better than a dollar earned by export if the subsidies are equivalent because this makes us less vulnerable to external factors.

In view of the economic outlook for the western world in general, this independence would be especially desirable.

The rising energy costs and its impact on transport costs means that our comparative advantage revolves round transport. Only high value

products for export can overcome this transport burden. The old chestnut of processing of all our prime products into higher value products still stands as a number one imperative.

The smelter firms will need to take high baselines in a transfer-pricing exercise because the cost will continue to spiral through an increasing transport cost rate.

An example of high-value products with low transport costs is the export of computer software. We can compete in this area because we have well-educated populace fit which can be drawn upon to do this work with- out damaging our existing infrastructure.

Indeed academic inflation means that many school-leavers are over-qualified for the jobs they take on. If computer capable people move out of existing establishments, more people could move up to more appropriate levels of skill requirement.

Already small New Zealand organisations on the fringes of the computer industry have done very well overseas.

Two world-leading computer bureaux, Databank and its Ministry of Works, prove we have the capability when well managed. The Health Department computer experience is not typical.

If existing Government computer facilities could be made available in their unused form for software development, the almost no capital investment would be required. It is labour-intensive industry which is what we want, and the costs of exporting the products are absolutely minimal.

The product can be copied at its destination in multiple sales.

What we lack is the resulting and marketing infrastructure required. The commitment to this industry, the finding and training of the productive staff will take much less time than the building of large-scale technological capital works.

The thing that we do lack in this area is the management capability. The production of a software developer can be expected to earn \$50 an hour more. In a year, allowing for holidays, skill maintenance overheads, lost time etc, one person should be able to generate \$50,000 worth of product.

This sort of work can be done at home, requiring no capital investment in buildings.

A good microprocessor team of three could develop a \$20,000 bracket of productivity. After allowing for the programmer's income, a three programmer team could be expected to pay for its own computer and management training infrastructure.

From Page 1

questions put by Labour's St Albans MP, David Caygill.

In the case of the second smelter NBR broke down the figures supplied in the answer. They clearly indicate that servicing the debt incurred will cost as much as the capital to build the plant.

All the debt in a debt:equity ratio of 60:40 has been raised offshore and is not to be repaid prior to 1990. Spreading the capital cost over the construction period — from 1981 to 1988 — interest payments add up to \$350 million.

Full interest on the capital — which is set at 3 per cent "real" (the equivalent to a nominal rate of interest of 3 per cent above this country's inflation rate which NBR assumed would be 15 per cent over the period) would be payable for the last two years of the decade at a cost of \$172 million.

During repayment of the capital — \$478 million — over the first half of the 1990s, \$250 million in interest payments would be payable.

The projects are in different stages of their development but no uniform methodology has been used to gauge their capacity to generate foreign exchange because the descriptions have been derived from different sources which have employed different assumptions.

Debt:equity ratios range from 90:10 to 60:40; the percentage of foreign content varies from nil to 100 per cent; interest rates vary and are calculated on different formulas for the offshore debt which are subject to differing time conditions.

The Muldoon figures excluded interest during construction; hence NBR calculations.

The figures were supplied to illuminate a table on net foreign exchange flows associated with the projects which Caygill elicited from an earlier question.

They are assumptions and should be considered "in the context of the broad caveats" of the first answer:

- The synthetic fuel plant, NZ Steel's expansion and the electrification of the main trunk line are subject to final decisions;

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- The offshore financing proposals may be modified at their level of Government borrowing which is necessary to finance the current account deficit. Detailed financing arrangements have not yet been concluded for most of the projects.

Despite the qualifications and the fact that interest and foreign exchange fluctuations are not considered, the written answer casts more light on the projects than the glimpses provided to date.

The volatility of the assumptions is indicated by the leap in the capital cost of the synthetic fuels plant. The first question elicited a figure close to \$750 million but in these answers a capital cost of \$958 million is acknowledged.

The assumptions are in 1981 dollars.

Expansion of NZ Steel.

The capital cost of \$730 million, with a foreign content of 55 per cent, will be spent from 1981 to 1988. Offshore finance equal to the foreign content of capital costs has been raised at an average interest rate of 3 per cent "real".

Output from the plant, which the estimates put at \$190 million worth of foreign exchange in 1990, has been valued at the United States trigger prices prevailing in the fourth quarter of 1978 and escalated at the New Zealand inflation rate. No offshore debt is paid before 1990.

Expansion of Marsden Point.

The oil refinery's capital cost of \$552 million has a foreign content of 52 per cent and will be phased over 1980 to 85. Overseas owners have a 69 per cent stake in the project and the foreign content of the operating costs will be \$16 million a year.

All debt is to be raised offshore and the average nominal interest rate is 15 per cent for a project with a debt:equity ratio of 80:20. Overseas debt will be repaid out of cash flow generated by refinery operations which will enable output of refined products to increase by about 28 per cent.

Synthetic fuel plant.

The Mobil project has a capital cost of \$958 million with a foreign content of 60 per cent but debt of 80 per cent. All debt is raised offshore at an average interest rate of 2 per cent "real" to provide capital expenditure to be phased from 1980 to 1986.

Overseas ownership during the operating phase is 49 per cent when the foreign content of operating costs will be \$41 million. The debt:equity ratio is 80:20 and the debt is repaid in equal amounts over the project's life.

Output has been valued by taking forecast value of crude oil as set out in the Energy Plan 1980 plus a flat margin of \$14.30 a barrel (reflecting the difference between the value of crude oil and petrol).

Stand-alone methanol plant.

The capital cost of \$174 million has a foreign content of 60 per cent. The capital expenditure will be phased from 1981 to 1984 and the foreign content of operating costs is about \$11 million a year.

The plant, which has an overseas ownership of 49 per cent, has a debt:equity ratio of 60:40. The plant's output of 396,000 tonnes a year has been valued at \$220 tonne throughout the project.

All debt is raised offshore at a nominal interest rate of 8.5 per cent and is repaid as a first charge on available cash flow.

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The debt:equity ratio is 60:40 on the plant which will produce 1000 tonnes of ammonia and 155,000 tonnes of urea a year.

Main trunk line.

Electrification of the main trunk line will incur capital costs of \$135 million of which the foreign content is 52 per cent. Capital expenditure will be phased from 1981 to 1989 and the main operating saving arises from replacement of diesel oil — initially 18.5 million litres.

In addition to setting out assumptions for each project, Muldoon supplied the

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That his Energy Minister Bill Birch's acknowledgement in Dunedin recently that the additional cost to generate electricity for the two smelters, a sum of \$1500 million, will be initially financed from borrowing. The cost of electricity generation, therefore, has to be added to the foreign exchange costs of the growth strategy projects.

Balance of payments flows for the projects taken collectively indicate that the \$2 billion capital expenditure to be spent up to 1988 in foreign exchange would be returned in earnings and savings by 1990.

During that 10-year period the balance of payments constraint will be severely aggravated. In the 1984-85 year a total of \$1645 million will have been spent on the projects which show a return of only \$175 million.

The Planning Council has drawn attention to this problem in its *Implications of New Energy Developments* published in October 1979. "It would seem common sense to start with one or two projects rather than six or eight... Too much at one time could prove to be indigestible and might also have serious effects on investment and activity in other sectors."

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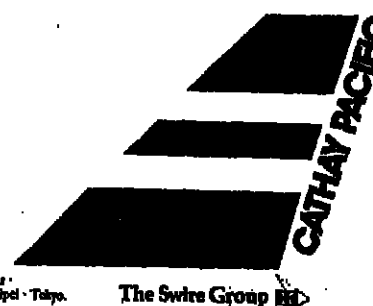
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Hidden costs turn 'think-big' into 'spend bigger'

From Page 1

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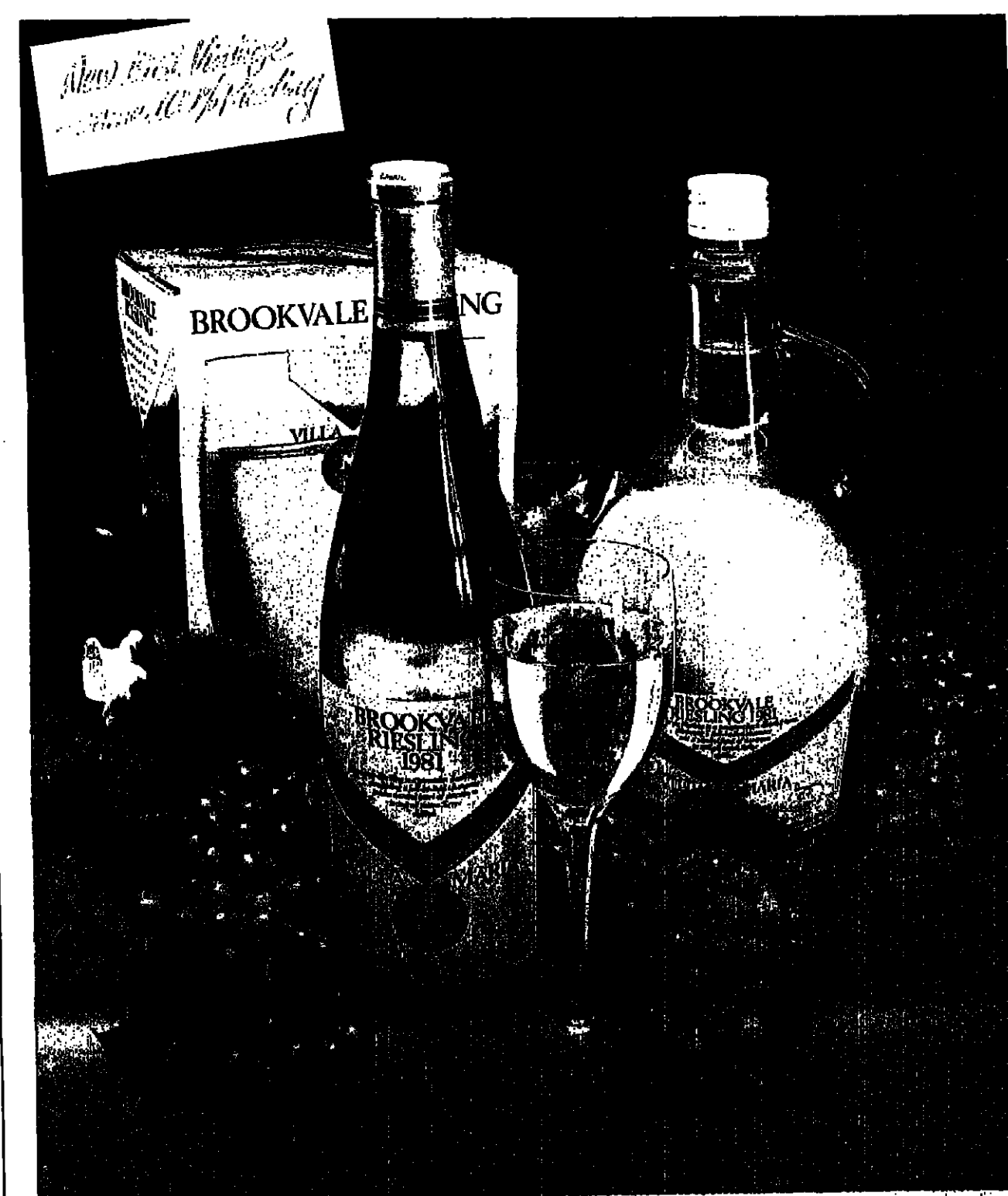
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VILLA MARIA

Smelter electricity costs: others carry burden

by John Peet

THE Government's 1979 electricity plan "revealed an expectation of substantial power surpluses throughout the 1980s..." according to the 1980 Energy Plan.

Instead of using the surpluses as an opportunity to save the country from the continuing trauma of heavy investment and environmental damage caused by new power stations, the Government decided to compound its past errors by selling off most of the surplus to Comalco (for a third point at Tiwai Point) and then build more capacity to be sold for a second smelter.

The question whether there is a real surplus is made more difficult by the fact that the power system has been planned using the "dry year energy margin" criterion.

The system is designed "so that an energy capability margin of 7 per cent is provided above expected demands with the output of hydro-stations written down to a dry year level (85 per cent of normal output)".

In other words, the system is designed to provide a margin of safety, in dry years. Inevitably and properly there will be a resultant "surplus" of generating capacity most of the time.

The surplus capacity is needed for security, and must not be regarded as being for sale under any circumstances. Only if spare capacity exists over the dry year margin, does it become a true surplus.

It is not clear whether the derating of oil-fired capacity (to 15 per cent and 5 per cent respectively for thermal and gas turbine stations) is the result of detailed economic analysis, or just another essentially political decision to cut down on anything which uses oil.

In any case, it results in a valuable short-term option for dry years being excluded from the planning exercise, even though it will still be available (and will be used) if required.

The result is that the Government is planning to build high-cost hydro and oil-fired replacements for these oil-fired stations, whether or not it

has been shown to be economic to do so for the occasional dry year.

It is clear from the Energy Plan and a parent document, the Report of the Electricity Sector Planning Committee, that in the year before the Energy Plan was issued, electricity forecasts had been drastically revised from those of a year earlier.

Whether the results are any "better" than in previous years is obviously open to question, given the planners' lamentable past records.

One point arguably in the planners' favour, however, is the fact that the 1980 Energy Plan has clearly been subject to even more political direction (for example the need to plan for sales in aluminium smelting) than in previous years.

In effect the Government made the decision to sell 2000 GWh off to new electricity intensive industries, and later decided to make available a further 3000 GWh, essentially for a second smelter.

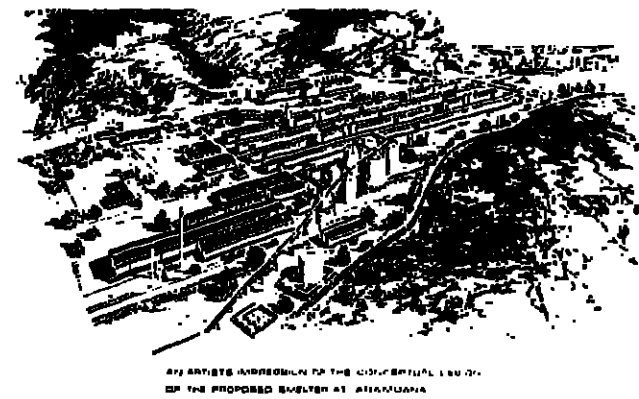
These are the two cases used in the Electricity Sector Planning report, with only a cursory reference to the true base case, namely that neither of these two alternatives should go ahead.

A number of economists are talking about a 35 per cent growth in real incomes over the next decade. While the linkage between GDI and electricity requirements is far from simple there is no doubt that the requirements of any such growth will have significant effects on our basic demands for power.

The plan to pre-empt all of our spare resources for aluminium smelting is, therefore, highly likely to land us in the situation of not having enough electricity for our own needs, while being locked into a contract to supply smelters well beyond the turn of the century.

The extent and duration of the real surplus that results after inclusion of the 2000 GWh block is clear from the Report of the Electricity Sector Planning Committee. With the dry year energy margin included, the surplus disappears after 1986/87.

This surplus will be used to start satisfying the second



AN ARTIST'S IMPRESSION OF THE COMALCO EXPANSION OF THE PROPOSED SMOELTER AT TIWAI POINT.

smelter's 3000 GWh demand, with new capacity taking over as soon as it can possibly be constructed.

The power station construction and operation schedules that describe the 2000 GWh and 5000 GWh cases are given in detail in the planning committee report. The extra costs of the 5000 GWh case can then be obtained by taking the difference.

It is incorrect, not to say misleading and irrelevant, to confuse the issue (as some politicians and economists have been doing) by arguing that the constancy of the load justifies giving these new industries concessionary tariffs because they cost less to supply. This fact has already been taken into account by the electricity planners, and must not be double counted.

Capital recovery charges were evaluated from capital investment schedules (derived from published data and updated to March 1980) and standard New Zealand Electricity economic lifetimes. Fuel costs for the thermal power stations were evaluated using published data, and were assumed constant in real terms, with the exception of oil costs which were inflated according to Energy Plan projections.

These calculations were carried out for a mean year situation only and the calculated costs are therefore the absolute minimum costs, not the "expected" costs.

The cost of power (in March 1980 dollars) varies somewhat from year to year but averages about 2.5c/kWh. This result agrees generally with statements made by Energy

Minister Bill Birch and Under-secretary Barry Brill.

The reason for argument is bound up with the fact that ministerial statements have also been made, putting the cost of new hydro generating capacity as well above 3c/kWh.

When this is added to the planning report's generation schedules, which show a substantially greater use of expensive coal and gas in the 5000 GWh case than in the 2000 GWh case, one starts to feel that something is wrong.

Murray Ellis, a Ministry of Works and Development scientist, first blew the whistle and pointed out the flaw in the energy plans.

The method is deceptively simple, and was probably accidental in the first place.

What happened is that the 2000 GWh case was designed not only with the 7 per cent dry year energy margin in place, but also with an extra margin on top of this, which averages roughly another 3 to 4 per cent over the 15-year planning horizon.

While this sort of gold plating in one sense can be regarded as prudent, it involves heavy capital costs, which will have to be paid for by someone, and should be subject to proper economic justification.

The 5000 GWh case, on the other hand, has been designed so that it barely even meets the basic dry-year demand, and does not have the 7 per cent margin until 1992/93.

In fact, the capacity actually falls below the dry year demand in 1986-87 and 1987-88.

This problem has been "overcome" by the decision to keep Meremere going for a few more years, at a cost of about \$20 million, and in spite of the fact that this station is obsolete and so inefficient that it can only produce about 22 per cent of its coal energy input as electricity, in comparison with Huntly which will probably reach 35 per cent.

Even with Meremere included, however, the dry year energy margin averages only 3 to 4 per cent over most of the planning period, a value that is far less than that designed into the 2000 GWh case. Without Meremere, the margin averages only 1 to 2 per cent.

In fact, it is virtually impossible to build new power stations fast enough to provide the necessary dry year margin when it is first needed (a shortfall of 2000 to 3000 GWh is evident for 1986-88).

Even with the planned construction schedule, it is clear from the Energy Plan that "... adverse hydrological supply factors" may "... risk substantial oil burning during the late 1980s".

In other words, although the oil-fired stations have been deferred for planning purposes, they will be used when needed for the 5000 GWh case, even though the 2000 GWh case contains enough spare capacity

SEVERAL highly qualified people - van Mueske, Bartram and Johnston, Easton, Ellis, and McDonald - have analysed the economics of the proposed new aluminium smelting operations and the associated sales of electricity, as currently planned by the Government. All but McDonald have concluded that any extension of aluminium smelting is unlikely to result in a net economic benefit to the nation.

Media treatment of these studies, however, has failed to discuss the logical bases of the studies. The fundamental assumption behind the original Government plans was that there was a surplus of "cheap" electricity, which it would be profitable to sell, rather than "waste".

As a professional engineer deeply involved in research on the place of energy in the economy, John Peet considered it important to look carefully at this assumption. He also made an independent estimate of the real costs of supply of electricity to electricity-intensive industries.

for the risk to be relatively much smaller.

The result of the official planning exercise to find the cost of electricity for the second smelter "... was like subtracting apples from bananas - and the answer was, predictably, a case of lemons" (as Molly Melnichuk observed in *Energywatch* August-September 1980).

To obtain a realistic estimate of the cost of power for the second smelter, it is necessary to ensure that the 2000 GWh and 5000 GWh cases are designed as far as possible with the same dry year energy margins, so that the difference between them reflects reality.

A reasonable "modified" 2000 GWh plan could involve delaying the construction of new power stations, and using spare thermal capacity to fill the gap in the meantime.

Ellis has proposed an approach that is not markedly different in principle, and gives comparable results.

The results of my calculations show that the real mean-year extra cost of the 5000 GWh block of power is around 4.2c/kWh - very much more than the 2.5c/kWh estimated from the official published plans.

Approximate capital requirements for the main options over the 1981-1999 planning horizon are:

5000 GWh Energy Plan about \$2.5 to \$2.75 billion
2000 GWh Energy Plan about \$2.25 to \$2.5 billion
Modified 2000 GWh Plan about \$1.5 to \$1.6 billion

From these figures it is clear that the capital cost difference between the 2000 GWh and 5000 GWh plans is only about \$250 million whereas if my modified 2000 GWh case is used, the difference is in fact at least \$1000 million. This is part of the capital cost of the second smelter, and must be included in any calculation of the economic consequences of the programme.

It is significant that my figure of 4.2c/kWh was obtained for the mean-year hydrological situation only, and contains no extra allowance for the use of thermally-generated power (including a substantial component from oil) in dry years.

The costs of gas and coal are also current accounting costs, not long range marginal or opportunity costs, which would be more appropriate in an economic study.

As the gas-based liquid fuels projects come on stream in the mid-1980s, the opportunity cost of gas will rise rapidly. As oil prices rise, gas prices should also rise.

The majority of the planned thermal electricity generation will be based on Waikato coal at Huntly, and a second Waikato station plus Meremere which is to be converted for coal firing.

It is widely known that there is plenty of coal available in the Waikato, and that it is one of the best in the world. These power stations, it is well-known that only a small proportion (about 20 per cent) of Waikato coal is accessible by conventional open-pit mining methods, and that this will be largely cut out by the late 1980s if the second smelter proposal goes ahead.

The real cost of the coal is deep, and will cost a great deal more to mine, not only for power generation but also for all other coal-users in the central North Island.

As well, the real costs of building power stations have been escalating rapidly in recent years. It would be prudent not to assume that they can be built in the future for the same real price as today's estimate.

It factors such as these are taken into account, it is clear that the opportunity cost of power for the second smelter is very much greater than the very conservative 4.2c/kWh figure derived above.

It should be remembered that this figure was obtained using data largely favourable to the Government's case, and ignoring factors such as dry-year firming, depletion and long-term replacement of non-renewable resources.

One point that has been skirted over in the debate so far is the cost of the 2000 GWh of power relative to the true base case, the "no more smelters" option.

In fact, the third point at Tiwai Point is expected to require about 1350 GWh of power, a great deal less than the planned 2000 GWh. There is no explicit market for the spare capacity, and so the 2000 GWh case has in reality been even more grossly overdesigned than was indicated above.

Again, this appears to be the result of political direction rather than departmental planning, but it introduces yet another distortion into the economic consequences of official plans.

If the planned 2000 GWh case is compared with the "no more smelters" base case (which assumes that little or no new generating capacity is needed before the expected surplus runs out about the end of the 1980s) the extra cost of the 2000 GWh is about 4c/kWh by the time the third point starts up, and rises to about 6c/kWh by 1990.

This is a direct result of the level of overdesign in the 2000 GWh case, but has been largely ignored by proponents of the Comalco expansion, who have implicitly assumed that the "surplus" has no economic value other than its "opportunity cost".

To put it bluntly, if the 2000 GWh and 5000 GWh power station construction plans go

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Computer 'contacts' — another moral dilemma

by Stephen Bell

THE computer industry is not immune to political involvement problems of the Springbok tour type. Distinguished American computer expert, Herb Grosch, on a brief visit to New Zealand has been faced with a strikingly parallel situation.

As president of the Association of Computing Machinery Grosch created controversy some four years ago by backing a successful motion to cease co-operation with the Russians on the computer science front, because of Moscow's treatment of dissident computer scientist Anatoly Scharansky.

Yet he would not subscribe

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correct, then the cost of power for the Comalco expansion is extremely high! Only if the 2000 GWh case is redesigned, does the expansion begin to look more favourable, but this redesign immediately puts the high cost of the second smelter into perspective. A "Catch-22" situation!

My modified 2000 GWh plan has been costed out and the mean-year extra cost of the 2000 GWh block is much lower, at 3 to 4c/kWh.

A different method of analysis is needed, however, to evaluate the extra costs that will accrue to all other users of electricity, if the second smelter proposal goes ahead.

Whereas the economic analysis above used a discount rate of 10 per cent in real terms, the financial effects in real life reflect an interest rate on Government borrowing significantly lower than the rate of inflation.

The result is a substantial, indirect taxpayer subsidy on all Government capital works.

In addition, according to current policy about half of capital expenditure by the NZE is to be paid out of revenue, the rest out of loans, a process which shifts the burden of future demands on to current consumers.

The other determinant of cost to other consumers is the revenue from smelter sales of electricity. The price is apparently tied to the world price of aluminium, and the economic value of the sale is, therefore, critically dependent upon the time during which the current high aluminium price level can be sustained.

In my opinion, while there will be a short-term high world price for aluminium, current plans for substantially extending world smelting capacity and replacing high-cost capacity mean that the price may even decrease in real terms after the mid-1980s.

It is clear, nevertheless, that if the price did remain high in real terms significantly beyond that time, major sections of the world aluminium market would be lost to competitive metals anyway, and for this reason any assumption of long-term high prices must be seen as highly questionable.

In my calculations, however, I have used the very conservative assumption that the revenue per kWh of smelter sales remains constant in real terms over the 15-year planning horizon, at the levels recently quoted by the Government.

Results of calculations of the average cost of bulk electricity to all other non-smelter users show a steady decrease in the real price of power to other users over the next three years (until the new smelter starts up) followed by a generally flat price regime for the rest of the decade.

It is clear that the cost to

to a similar boycott of South African computer people he told NBR and earlier this year he created a fresh furor by visiting South Africa.

Explaining his apparently inconsistent decision, he pointed out that no South African "in the computer trade" had had occasion to complain of oppression as had Scharansky. The ACM, he said, had influence only within the computer industry, and it was not "valid" for it to seek to combat oppression which had not directly touched that industry.

His visit to South Africa, he felt, was an encouragement towards an international co-operation which would benefit the computer trade as a whole in that country.

Direct use of computer power to implement apartheid policies was a different matter, he admitted. It was almost im-

possible to prevent governments procuring computer hardware, but the "professional" software specialists had a duty to refuse to develop systems for what they considered immoral or politically dubious purposes.

The scarcity of computer experts worldwide gave them a chance to wield real influence in this respect, and there had been too little attention in professional computing organisations to the effect of computer-based systems on people's lives. The members often preferred to adopt a detached attitude, immersing themselves in questions of pure technology.

Grosch, with some 35 years in the computing profession ranked himself as one of a class of socially aware computer people who were passing out of the industry.

But he had great hopes for

the social awareness of people now coming in at the bottom end. The trend was "sinusoidal", he said. Socially responsible entrants came in phases, interspersed with people with an "I'm in it for me" attitude.

One of the most positive moves which the professional organisations could make towards increased social awareness lay in formal certification of computer professionals, he contended.

The Certificate of Data Processing and Certificate of Computer Programming in the United States were beginning to command respect among employers. These qualifications carried with them a code of ethics similar to the rules of the ACM.

"I would like to model (a code of ethics) on Asimov's laws of Robotics," said Grosch.

"Broadly, that you shouldn't design systems which leave human considerations out."

With his reputation as computer pundit and prophet, Grosch attracted audiences of several hundred in Auckland and Wellington to hear his predictions for the computer industry over the next decade.

Two years ago, he displeased some of the New Zealand computer people by his decision to address himself to the Society of Accountants in Rotorua, leaving the hierarchy of the Computer Society unaware of his presence here.

This time round, the computer people got a good look in, his sponsor being computer hardware manufacturer Burroughs. He graciously repaid it hospitality by including it among the four surviving main-frame computer companies predicted for 1991.

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